FINANCIAL TIMES

World Business Newspaper http://www.FT.com TUESDAY NOVEMBER 10 1998

Impact of IT on work
Rushed employees have no time to share knowledge
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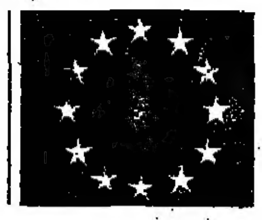

EU enlargement talks
This is the easy bit, the bloc will flow later
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Fund management in Europe
How the use of the euro will transform portfolios
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Germany
New leader, new capital
Separate section

WORLD NEWS

Brussels prepares $476m food aid package for Russia

The European Union is lining up an Ecu400m ($476m) food aid package in expectation of a formal request by Moscow to help Russia tackle shortages. Under the proposal, Russia would get 1m tonnes of free wheat and 150,000 tonnes of beef. Page 2

Intel accuses Microsoft of bullying
Intel accused Microsoft, its main partner in the personal computer industry, of bullying it into dropping software development. The evidence is likely to prove highly damaging to Microsoft's prospects in its US monopoly trial. Earlier story, Page 9

Livingston in line for Gingrich job
Bob Livingston looked certain to become US House of Representatives speaker after his main rival dropped out of the race to succeed Newt Gingrich. Page 8

US pilot faces second court-martial
US Marine pilot Richard Ashby, whose jet cut lift cables at an Italian ski resort, killing 20 people, faces a second court-martial for allegedly hiding and conspiring to destroy a videotape of the fatal flight.

Milosevic accused of betrayal
Kosovo's Serb minority leaders said Yugoslav president Slobodan Milosevic had betrayed them with a peace plan that would give the ethnic Albanian majority control of the province. Page 2

German partners mend rift over tax
Germany's coalition partners yesterday thrashed out a deal to defuse a row about energy taxation. They confirmed plans for rises in January, but with reduced rates for manufacturers and exemptions for energy-intensive industries. Page 2

Five killed at Angola mine
An armed attack on a diamond mine in north-east Angola left five workers dead, including two Britons, Canadian mine operator DiamondWorks said. Several employees were taken hostage.

Debut for pharmaceutical potato
Axis Genetics of the UK has commissioned American Ag-Tec International to grow potatoes containing hepatitis B vaccine. Clinical trials are due to start next year.

Indonesian military steps back
Indonesia's defence minister and armed forces chief General Wiranto said the post of head of the military's socio-political division was being abolished. Pressure on Habibie, Page 6

China acts on quake warning
China is to reinforce important buildings after scientists warned of a severe earthquake in the north of the country during the next few years. Page 6

Pop star settles libel action
Michael Jackson settled a libel action against Britain's Mirror newspaper which claimed the singer's face had been "hideously disfigured" by cosmetic surgery.

Fake sheikh jailed
Student Yasir Elkhazin pretended to be a wealthy sheikh and lived a life of luxury in London. He was jailed for deception. Page 11

Wallenburg memorial for NY
New York mayor Rudolph Giuliani accepted a sculpture dedicated to Raoul Wallenberg, the Swedish diplomat who saved Jews from the Nazi gas chambers 54 years ago.

BUSINESS NEWS

Fund managers believe euro could rival the dollar

Global fund managers now believe the euro will be a strong currency in relation to the US dollar and will soon rival the dollar as the preferred currency for debt issuance, a report from Deutsche Bank says. Page 16; Editorial Comment, Page 15

British Airways insisted it had the right to conclude a code-sharing deal with American Airlines, but the US warned it would block a deal unless London's Heathrow airport was substantially opened to competition. Page 17; Lex, Page 16

Institutional investors with funds under management of more than $6,000bn have promoted the Japan equity market from least favoured to most favoured market, a survey shows. Page 17

Fiat of Italy and Renault of France are to merge their foundry activities to create a world leader in automotive components with annual sales of L3,300bn ($2bn). Page 17; Fuji Heavy results lifted, Page 19

General Motors, the world's largest auto maker, announced a 10-year agreement with Alcan to purchase aluminium at stable prices and co-develop new automotive applications. Page 20

News Corporation reported doubled first-quarter profits and a 30 per cent increase in revenues at Fox Entertainment Group, its US film and television arm. Page 20

Assicurazioni Generali, Italy's largest insurer, and Commerzbank, Germany's fourth largest bank, announced a L2,400bn ($1.46bn) cross-shareholding alliance. Page 18

Siemens said it could be ready to launch the stock market flotation of its troubled semiconductors business next year. Page 18

Viag, Munich-based power-to-telecommunications conglomerate, is to dispose of logistics and other businesses with annual sales of about DM14bn to DM15bn ($9.1bn), or about 30 per cent of group turnover. Page 17

BP is to invest £500m ($845m) in upgrading the competitiveness of its petrochemical manufacturing operation in the UK. Page 21

Henkel, German household chemicals group, said it would pay a higher dividend this year, even though it expected full-year net profit to grow at the same rate as last year. Page 18

Standard & Poor's, US credit rating agency, said prompt action by Argentina's bank regulator over the failed Banco Mayo had bolstered the country's credit standing. Page 20

Internet-based electronic commerce sales could reach $3,200bn in 2003, representing nearly 5 per cent of global sales, US projections show. Page 7

Komatsu, Japanese construction machinery group, reported its first interim loss – of Y1.15bn ($9.7m) – following a collapse in the domestic market. Page 19

Lex on Germany
Getting used to the sound of the falling axe
Page 16

Too late to defuse millennium bomb, software group warns

Cap Gemini urges governments to concentrate efforts on essential services

By Christopher Price in London

It is too late now for US and European companies to defuse the millennium bomb in their computers, a comprehensive survey has revealed.

The survey, carried out by Cap Gemini, Europe's biggest software and services company, urges governments to give up a broad-based approach to the problem and focus their efforts on fixing computer systems that operate essential services.

The millennium bomb refers to the problems arising because older computer systems are unable to recognise the date change from 1999 to 2000.

Geoff Unwin, Cap Gemini's vice-chairman, said: "As companies and organisations begin tackling the computer bomb, they find the situation is worse, more complicated and more expensive than they expected."

As a result, the company says the estimated cost of defusing the bomb in the US and Europe has risen by 20 per cent in the past six months to $858bn.

The report found that US companies had spent 61 per cent of their estimated cost of fixing the problem, while European organisations have almost reached the halfway stage. But the Americans were less confident than the Europeans that their systems would be adjusted in time. "Why is the US less confident?" asked Mr Unwin. "Because they have seen the size of the problem."

The Cap Gemini report found that 40 per cent of the 1,900 US and European companies and organisations covered in the survey would not be testing their entire systems before 2000. In addition, half of the companies said they would not be testing their systems in conjunction with their trading partners.

Of the total increase in planned expenditure on defusing the millennium bomb that has emerged in the last six months, the share going to computer hardware has risen by more than half to $169bn. Estimated software costs have increased 12 per cent to $200bn, while staff costs have risen 17 per cent to $489bn.

One result of the channelling of resources into the problem is that other information technology projects are being postponed.

"We are beginning to see a large and growing backlog of postponed IT initiatives," said Mr Unwin.

He denied that his company was using the issue to stimulate business for itself, with only 6 per cent of its work related to the problem: "This issue goes beyond corporate matters – it is absolutely essential that immediate action is taken to protect the vital services in society."

The report's pessimistic conclusions will be backed up tomorrow when Taskforce 2000, a UK pressure group, is expected to report that a quarter of UK government departments and agencies are badly prepared.

Paradox for world business, Page 4
Bomb boosts Indian sales, Page 7

EU threatens retaliation against US in banana trade dispute

By Neil Buckley in Brussels

The European Union warned yesterday that threatened trade sanctions by the US over the EU's banana import regime risked damaging transatlantic relations and the multilateral trade system – and would be met with a robust response.

A spokesman for trade commissioner Sir Leon Brittan said the EU had "several options" if sanctions were imposed, including action against the US through the World Trade Organisation.

"If the US has a problem with [the banana regime] it should use the proper [WTO] channels," the spokesman said. "It should not use the rules of the jungle."

Pierre Moscovici, France's European affairs minister, said the EU had already responded to US complaints about the banana regime. He said France could "only deplore" the US willingness to resort to unilateral action.

Sir Leon is expected to give what aides called a "trenchant defence" of the WTO system during a press conference today.

That will come before Washington is expected to publish a preliminary list of European exports on which it proposes sanctions in an effort to force the EU to make further changes to its banana import system.

There was speculation in Brussels that the US would propose sanctions on high-profile products, such as Scotch whisky and French wine and cheese, to exert maximum pressure on the EU. The US is expected to consult industry on its preliminary sanctions list before announcing a shorter, definitive, list in December.

Officials at the European Commission, the EU executive, insisted that the US should instead stay within the WTO system and launch an appeal. "If they appeal, we will co-operate fully," said one.

The US has already won a WTO case over the regime, which gives producers in former African, Caribbean and Pacific colonies of France and the UK privileged access to the EU market.

But Washington said changes introduced by the EU last month did not go far enough in improving access for bananas grown in Latin America.

Ciba and Clariant to merge into speciality sector world leader

By William Hall in Basle

Switzerland's Ciba Specialty Chemicals and Clariant are merging to create the world's largest speciality chemicals group.

It will have a combined market capitalisation of more than SFr20bn ($14.6bn), more than twice as big as its nearest competitor. The merger will create a company with sales of SFr18bn, 55,000 staff and operations in 120 countries. It is the biggest step yet in recent global consolidation in the sector.

Clariant, spun off from Sandoz in 1995, and Ciba, spun off from Novartis last year, began discussing the merger six weeks ago. Although both have made big acquisitions, they found they were pursuing similar strategies.

"Both companies increasingly faced the same opportunities, difficulties and challenges," said Rolf Schweizer, Clariant chairman, who will be chairman of the enlarged group – also to be known as Clariant. "We can achieve our objectives faster and with less risk when we work together."

Simon Marshall-Lockyer of BT Alex Brown said the merger made a "huge amount of sense". Clariant was strong in growth areas such as fine chemicals, while Ciba was strong in areas like water treatment. However, the merger could face regulatory delays because of some of the market shares involved.

Ciba's shares jumped more than 14 per cent to SFr144.75 yesterday, while Clariant's shares rose SFr30 to SFr779.

The new group will focus on speciality chemicals with innovative properties. It will have five core businesses – additives and water treatments, cellulose ethers, process chemicals, fine chemicals and colours. It will concentrate growth in water treatments, fine chemicals for pharmaceutical and agrochemicals and electronic chemicals.

The new group has set itself a medium term strategic target of earnings 20 per cent on sales and increasing revenues at 1.5 times annual global economic growth.

The merger will be earnings enhancing from 2000 and will generate annual cost-savings of SFr600m by 2001. It will lead to a reduction of 3,000 jobs. However, the company said the reductions could be met by the normal staff turnover. Clariant shareholders will own 54 per cent of the registered shares of the enlarged group.

Credit Suisse First Boston acted for Ciba and Warburg Dillon Read acted for Clariant.

Observer, Page 15; Lex, Page 16; Analysis, Page 18

Luis Flores surveys the wreckage of his home in the Honduran town of Pespire yesterday. Help is continuing to pour into the region after last week's floods and mudslides that killed up to 10,000 people. Report, Page 8 Reuters

Fazio hints at interest rate clash with ECB

By James Blitz in Rome

Antonio Fazio, governor of the Bank of Italy, says Europe's national central bank chiefs will want to retain significant influence over monetary policy after the single currency is formed in 50 days' time.

Amid growing concern that the new European Central Bank could find it hard quickly to develop a clear identity, Mr Fazio has hinted that he, and possibly other national governors, could clash with the permanent executive board set up in Frankfurt under Wim Duisenberg, the ECB president.

Interest rates for the new single European currency, the euro, are to be set by the ECB's governing council, which contains six members of the permanent executive and 11 national governors, including Mr Fazio, who wields powerful influence over interest rate setting in Italy.

The ECB executive board is already facing pressure from centre-left governments in Europe for a cut in interest rates to boost economic growth.

Mr Fazio is now pointing to a possibility that meetings of the council could be the stage for power struggles between the executive and national governors.

"Subsidiarity is the principle by which everything that can be decentralised must be decentralised," he said in a Financial Times interview. "This is the basic principle, even of the Maastricht treaty.

"All of us must vote [in the policy-making council] in the interests of the European area as a whole. But it is important to remember that the credibility and strength of the council derives from the credibility and strength of the national central banks themselves."

Mr Fazio's call for a more decentralised ECB can be seen as an attempt to keep a grip on his power. His central bank is independent and the governor alone makes interest rate policy.

Italian politicians are concerned that Italy's growth rate – at around 1.5 per cent this year – is well below that of other members of the 11 single currency states.

This means Italy may have to fight harder for a euro zone interest rate policy that suits its needs.

Euro zone rates, Page 3
Hawk among doves, Page 15

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8675.05	(-100.41)
NASDAQ Composite	1845.55	(-11.01)
Europe and Far East		
CAC40	3585.32	(-3.31)
DAX	4768.58	(-67.84)
FTSE 100	5433.9	(-57.1)
Nikkei	14194.54	(+72.57)
US Lunchtime RATES		
Federal Funds	5%	
3-mth Treas Bills: Yld	4.633%	
Long Bond	98?	
Yield	5.319%	
OTHER RATES		
UK: 3-mo Interbank	6?%	(same)
UK: 10 yr Gilt	130.42	(129.78)
France: 10 yr OAT	133.5	(133.29)
Germany: 10 yr Bund	104.27	(103.97)
Japan: 10 yr JGB	108.57	(108.59)
NORTH SEA OIL (Argus)		
Brent Dated	$11.27	(11.605)

GOLD		
New York: Comex		
	$293.4	(294)
London:		
	$292.45	(293.25)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6604	
DM	1.6895	
FFr	5.6651	
SFr	1.3963	
Y	122.075	
London:		
£	1.6595	(1.6626)
DM	1.6875	(1.6623)
FFr	5.657	(5.5736)
SFr	1.3945	(1.3672)
Y	121.3	(118.31)
Tokyo Close		Y 119.3
Sterling		
DM	2.8003	(2.7637)

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WORLD NEWS
EUROPE

HUMANITARIAN AID PLAN TO SEND 1M TONNES OF WHEAT AND UP TO 150,000 TONNES OF BEEF TO TACKLE SHORTAGES

EU outlines food package for Russia

By Michael Smith in Brussels

The European Union is lining up an Ecu400m ($476m) food aid package to help Russia tackle shortages resulting from its financial crisis.

The European Commission outlined the proposed package to EU foreign ministers yesterday in the expectation of a formal request for aid by Russia within the next few days.

Its proposal came three days after the US agreed a deal with Moscow to provide Russia with a $800m credit line for food, plus 1.5m tonnes of wheat and an extra 100,000 tonnes of food as humanitarian aid.

Under the Commission proposal, food including 1m tonnes of wheat and up to 150,000 tonnes of beef will be provided to Russia free. Money for transport would also be included in the Ecu400m package.

The money raised from selling the food would go into a fund to be used by Russia for "social purposes".

EU countries will have to approve details of a food aid scheme. However Wolfgang Schüssel, foreign minister of Austria, holder of the rotating EU presidency, said the reaction of his colleagues yesterday was favourable.

The scheme will be welcomed by EU farmers, whose incomes have dropped sharply in recent years following a fall-off in exports to Russia and Asia and a world-wide reduction in commodity prices. Virtually all the food will come from the EU's so-called "intervention stocks", created because the EU binds itself to buy products from farmers at guaranteed prices when markets are depressed. Reducing intervention stocks will eventually help prices to recover.

The Commission said it would insist on controls to ensure food be sold at local market prices and that it is not re-exported.

The Ecu400m would come from Common Agricultural Policy funds, although a spokesman for Franz Fischler, farm commissioner, said the CAP's ability to finance the deal depended on EU countries agreeing to increase a previous request for additional funds for next year's budget.

Although the EU has undertaken to consider any Russian request quickly, it is unlikely food will be sent to Russia for several weeks and possibly not until the New Year.

Apart from the wheat and beef, the Commission's proposed package comprises 500,000 tonnes of rye, 100,000 tonnes of pigmeat, and 50,000 tonnes each of skimmed milk powder and rice.

The Commission formulated its proposals after officials visited Russia last week.

Call for companies league table

By Robert Taylor, Employment Editor

The European Union should create a performance league table for large companies based on best employment practices, and "bad" employers who fail to comply should be penalised financially, an EU working group has proposed.

The proposal is contained in the report from a group chaired by Pehr Gyllenhammar, chairman of CGU investment group and former head of the Volvo car corporation in Sweden.

It was created by the European Commission to examine "the economic and social implications of industrial change", following the crisis caused by Renault's decision last year to close its Vilvoorde plant in Belgium.

The study proposes that companies found lacking in their employment practices should be denied access to grants, public procurement and public aid for research and development. It also proposes private companies employing more than 1,000 employees inside the EU should be denied state aid if they fail to "take the necessary steps to safeguard the employability" of employees they have to dismiss.

The study will be put forward for approval at next month's head of EU governments summit in Vienna. An interim draft, published last summer, provoked criticism from employer organisations. But Mr Gyllenhammar and his colleagues have refused to tone down their proposals. Indeed, they have toughened some up.

However, the group believes "governments should abstain from interfering in industrial change."

The proposed creation of a European company performance league table is designed to ensure companies prepare annual "managing change" reports. These would lay out corporate plans for structural change, education and training, health and safety, and equal opportunities. The reports would also show what the company is doing in practice to implement plans. But Mr Gyllenhammar said the group was opposed to legislation but favoured voluntary action. But he added: "For any company not to prepare its employees for any redundancy situation is quite unacceptable." The report believes "legislation should be used to prevent improper behaviour" by a company.

It also argues companies must maintain the employability of their workforces "in anticipation of change", while employees must be able to "utilise all available training opportunities".

The report recommends a "skills charter" ensuring workers access to lifelong learning and career guidance, a "world class infrastructure for the information society", completion of the single market, and a data base for companies to use in improving performance.

Gyllenhammar: tough proposals

Bonn coalition acts to defuse energy tax row

By Peter Norman in Bonn

Germany's coalition partners yesterday acted to defuse a row over higher energy taxation by reaffirming plans to launch an "ecological" tax reform in January, but with reduced rates for manufacturers and exemptions for energy intensive industries.

Oskar Lafontaine, finance minister and leader of the Social Democratic party, and Jürgen Trittin, environment minister and a senior Green politician, reached political agreement on the energy tax increases. They ordered officials to work out details of the exemptions for draft legislation next week.

By agreeing to lower tax rates for manufacturers, Mr Lafontaine backed away from calls within the SPD to exempt all industry from higher energy taxes. Mr Trittin accepted that petrol taxes would rise by only 6 pfennigs a litre next year, rejecting calls from inside his party for a bigger rise.

Yesterday's agreement is intended to clear the way for next year's planned cut in contributions to the state pension system of 0.8 per cent of gross wages. Higher energy taxes are required to finance the DM11bn-DM12bn ($6.7bn-$7.3bn) cost of the cut in contributions.

The new German government's plans to reshape income and company taxes also moved a step forward yesterday with publication of a 300 page finance ministry draft bill for a three stage reform to 2002. It confirmed already announced plans for a modest reduction of tax rates and detailed 78 proposals to broaden the tax base, largely by cutting corporate tax breaks and write offs.

The tax plans, designed primarily to increase the purchasing power of families, would be more or less fiscally neutral until 2002. Then there would be a net tax give-away of DM15.3bn following revisions to help small and medium sized companies. The document claimed the reform would cause companies to publish more objective earnings data in line with international standards and would help to speed the globalisation of German companies.

Kosovo peace plan attacked

By Guy Dinmore in Belgrade

Leaders of the Serb minority in Kosovo, backed by an outspoken Orthodox bishop, have accused Yugoslav President Slobodan Milosevic of betrayal by negotiating a US-sponsored peace plan that would give the ethnic Albanian majority control of the Serbian province.

"Milosevic has tricked the Serbian people," Momcilo Trajkovic, leader of the Kosovo-based Serbian Resistance Movement, said yesterday.

"Ordinary people see his policies as a betrayal."

Mr Trajkovic and Bishop Artemije of Kosovo have demanded a role in the negotiating process with US mediators and a referendum throughout Serbia that would determine Kosovo's status.

Mr Trajkovic warned in an FT interview that Serbs in Kosovo would be ready to emulate the Albanian rebels and take up arms for their cause, as well as form their own local government.

Until recently Serbs made up around 10 per cent of Kosovo's 2m people, but their numbers are steadily dwindling.

Belgrade analysts doubted Mr Trajkovic could break the grip of Mr Milosevic's Socialist party in Kosovo but said his attacks would further embarrass the government as it tried to extricate itself from what has become a costly conflict in lives and money.

A ceasefire between government forces and the pro-independence Kosovo Liberation Army (KLA) is showing signs of falling apart daily. Officials yesterday recovered the bodies of two policemen executed by KLA rebels just 100m from a police station in the central town of Malisevo that came under attack on Sunday night.

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NEWS DIGEST

STRUCTURAL FUNDS

Commission bows to calls to dilute reforms

The European Commission yesterday bowed to calls to dilute an Ecu20bn ($46) scheme aimed at encouraging countries to make better use of regional aid funds. Monika Wulf-Mathies, regional policies commissioner, indicated she would be prepared to limit the so-called "performance reserve" to less than Ecu10bn and give member states a say in criteria for distributing the money.

The principle of a reserve is a cornerstone of the Commission's proposed reforms of "structural funds", which it expects to amount to Ecu218bn between 2000 and 2006. Initially it wanted to hold back 10 per cent of the total in its plan to reward efficient schemes and penalise those which failed to meet agreed performance targets.

Mrs Wulf-Mathies said she would be prepared to apply the 10 per cent to the allocation of funds for the last three years of the seven year plan. Agreement on the details is unlikely to be reached before a deal next year on structural funds and other changes. **Michael Smith, Brussels**

EU UNEMPLOYMENT

Jobless falls to below 10%

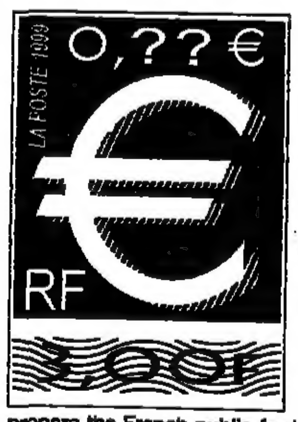
Unemployment in the European Union fell to below 10 per cent in September for the first time since December 1992. The 9.9 per cent seasonally-adjusted figure compares with 10 per cent in the months of August, July and June and 10.6 per cent in September last year.

The rate in countries participating in the single currency fell to 10.9 per cent compared to 11.7 per cent the previous year. Luxembourg has the lowest EU rate, at 2.2 per cent, and Spain the highest, at 18.5 per cent. Eurostat, the EU's statistics agency, noted yesterday that US unemployment stood at 4.6 per cent in September and Japan had a July jobless rate of 4.2 per cent. **Mike Smith, Brussels**

● German industrial production fell a sharper than expected, seasonally-adjusted 3.2 per cent between August and September. However, the Bonn economics ministry said the figures were distorted by holidays and predicted they would be revised upwards. **Peter Norman, Bonn**

SINGLE EUROPEAN CURRENCY

France unveils euro stamp



The French post office yesterday unveiled what it said was Europe's first postage stamp denominated in euros, the single currency. The stamp, to be sold from January, will be equivalent to the existing FFr3 (54 cents) stamps for standard letters of less 20 grams. "All the French will be able to buy it without difficulty," said the public sector-controlled post office, which will print an initial run of 500m stamps. The launch is part of a wider educational campaign by the post office to prepare the French public for the introduction of the euro. It said yesterday that from January, dual pricing in euros and French francs will be applied to most of its products. The post office, which also offers banking services, will charge no fees for conversions between the French and European currencies. **Samer Iskandar, Paris**

PORTUGUESE POLITICS

Socialists under pressure

Portuguese opposition parties to the right of the ruling Socialists moved towards an alliance yesterday after the government suffered a heavy defeat in a referendum on regional devolution.

Leaders of the centre-right Social Democrats and the smaller, right-wing Popular party said they hoped to form a partnership, to be known as the Democratic Alternative, to fight the next general election, scheduled for October 1999. But they said they would not use their victory in the referendum to push for the government's resignation and an early general election.

More than 63 per cent of voters rejected the government's plan to divide the country into eight administrative regions that would elect their own local assemblies and regional presidents. **Peter Wise, Lisbon**

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EU ENLARGEMENT POTENTIAL NEW ENTRANTS BEGIN NEGOTIATIONS TODAY ON COMPLYING WITH MEMBERSHIP RULES

European Union looks outwards

By Our International Staff

If the first substantive talks on enlarging the European Union that start today pass off peacefully, it will only be because the seven chapters selected for discussion are the "easiest". Any bloodshed would come later.

Representatives of Hungary, Poland, the Czech Republic, Slovenia, Estonia and Cyprus will in coming weeks be wrapped up in the nitty-gritty of the 20,000 pages of the *acquis* – EU rules and regulations – that make up the first seven of the 37 chapters and have been "screened" in meetings with the European Commission.

The screening has compared the countries' policies with EU regulations in the seven areas, namely science and research, telecommunications and information technologies, education and training, culture and audio-visual policy, industrial policy, small and medium-sized undertakings, and common foreign and security policy.

Relatively few differences have emerged but the early progress could influence future discussions on more difficult issues next year, including agriculture, property purchase rights, environmental costs, and controls on borders with non-EU countries further east.

There are no signs that interest in joining the EU club is flagging among the first-wave candidates, even though no permanent exemptions from any EU laws are permitted. Most negotiations will concern transitional arrangements under which applicants can maintain their own rules in a given sector for a limited time after EU entry.

Hungary

Hungarian officials have a common refrain on their country's membership: if they are not in by January 1, 2002, it will be the EU's fault, not Hungary's. With a star pupil's enthusiasm, Hungary has submitted position papers on 11 screening chapters, behind only Estonia, with 12, and ahead of other applicants' seven.

Budapest is seeking transitional arrangements in three areas – and "discussions" in two others – the most substantial being a 10-month delay on telecoms liberalisation beyond its target membership date of January, 2002. Other concerns include elements of trademark law, pharmaceuticals certification and product liability laws as well as special arrangements pending expiration of European Coal and Steel Community Treaty in mid-2002.

More substantial concerns are lurking, including agriculture. Hungary says its farmers should enjoy the same subsidies as EU counterparts from the start. But Brussels says that subsidies under the Common Agricultural Policy were designed to compensate farmers for progressive lowering of farm support prices – which non-EU farmers never enjoyed anyway.

The EU will also demand an end to restrictions on the sale of agricultural land to foreigners, a sensitive issue in Hungary as in most of central Europe. Another big worry is relations with the 3m Hungarian citizens living outside Hungary, particularly in Romania and Slovakia, and how these could be affected by the Schengen agreement, the EU's open internal borders policy. Schengen membership would mean opening Hungary's border with the EU – turning the rest of its borders into the EU's external frontier.

Poland

Last week's Commission progress report on the screening process was complementary of Poland, and so warmly welcomed. Like Hungary, it believes it will be ready for EU membership at the end of 2002. It is seeking only one transition arrangement in the current seven chapters – a delay, for military reasons, in releasing radio frequencies for mobile telephone operators.

Poland's steel restructuring plans have prompted a trade dispute that will come up at a separate meeting today.

The big question over Poland's entry, agriculture, is yet to come, however. The largest in central Europe, Poland's farm sector employs 25 per cent of the working population. Like Hungarians, Polish farmers want EU subsidies from the date of entry, but are unlikely to receive payments on anything like the scale made in the west. Negotiating transitional arrangements could be difficult.

Other looming problems are Poland's ban on land sales to foreigners and the heavy cost of raising environmental standards, particularly in coal mining regions.

Czech Republic

The Czech Republic suffered scathing criticism of its slow reforms in last week's report.

The government, which took office in July, blames its predecessors and accepts that Brussels has a right to be unhappy. "It's very good when somebody finally tells the cruel truth to those who have been telling us we are the number one in Europe," said Milos Zeman, the Social Democrat prime minister.

The slowdown highlighted in the Commission report has not shown up in the screening process so far. Of the seven chapters, the government has asked for a transition period only in broadcasting, arguing that pay and cable television stations will not be able to show enough EU output, as required under EU directives, until 2005.

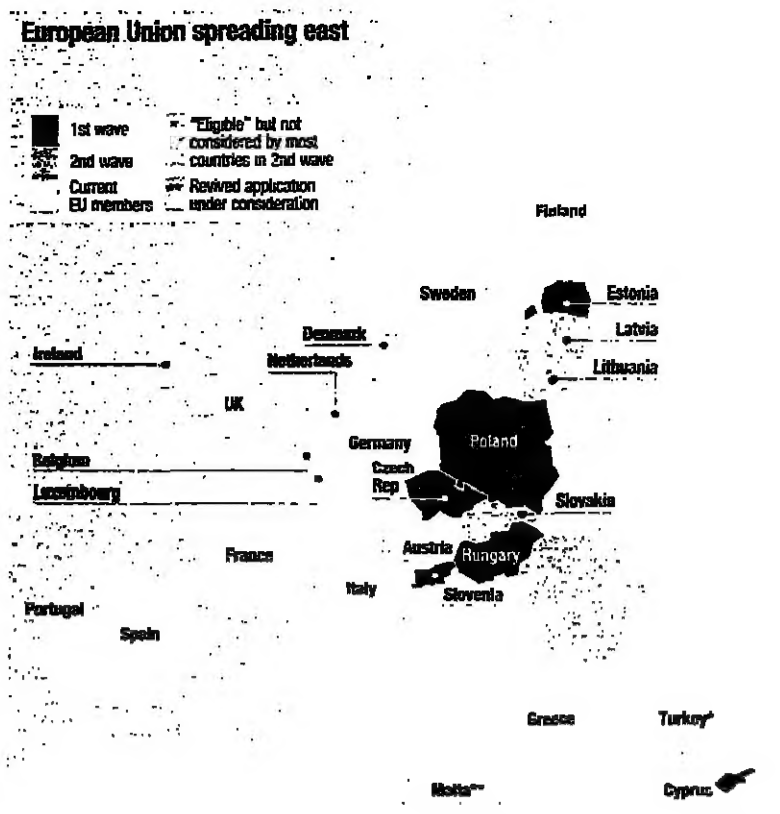
In future talks, the Czech Republic is also likely to ask for a transition period on environmental rules. The country is heavily industrialised and, despite much progress since 1989, remains one of the most polluted areas of Europe. Agriculture is a smaller part of the economy than in Poland or Hungary but still has political clout, as a recent trade dispute with the EU over apples showed.

Also, the Czech Republic's special relationship and customs union with Slovakia could pose difficulties if the two former parts of the Czechoslovak federation were to join at different times and a Schengen-standard border had to be created.

Another obstacle for the Czech Republic joining the Schengen agreement is the risk of an exodus to the west of the country's 300,000 Romanies.

The Commission report last week highlighted persecution of Romanies as an urgent problem to address.

The question of foreigners buying Czech land is also particularly sensitive given the expulsion of 2.5m Sudeten Germans at the end of the second world war and the desire of some of their descendants to return. The government appears to recognise it will have to allow foreigners to buy private property, but it may try to exclude them from buying privatised state farm land.



Slovenia

Slovenia's biggest immediate hurdle will be to put off liberalisation of audio-visual policy. The government has requested a two-year delay in fully implementing EU rules in order to encourage domestic producers facing strong competition from Pop-TV, a foreign-owned commercial station, broadcasting largely American programmes.

Telecommunications also presents some potential problems for the country in establishing an effective regulatory agency.

In the longer run, Slovenia's main problem areas are likely to be free movement of goods, and the implementation of EU competition policy.

Slovenia was criticised by the European commission in its latest opinion, partly for its slow progress in phasing out state aid to uncompetitive industries.

Estonia

As the only former Soviet republic invited to the talks, Estonia is aware it must overcome the caution of EU states worried about extending the union so far to the east. Hence the eager presentation of 12 chapters. In the early negotiations, it seeks transitional arrangements in three fields – government statistics, fisheries and special trade agreements with Latvia and Lithuania.

In future, the enviroment could emerge as the largest problem, given Estonia's reliance on open-cast oil shale mining for energy.

Cyprus

Cyprus is seeking a transitional deal on telecommunications – a 12-month postponement until January 1, 2003, on liberalising fixed-wire telephony – to allow more time to train regulators and for the Cyprus Telecoms Authority, still a state monopoly, to prepare for competition.

In general, the island will be ahead of the pack in negotiations because the relatively modern, service-oriented economy is small and Greek Cypriots have less ground to cover on adapting their laws to EU requirements than the five ex-communist candidates.

But Akel, the unreconstructed Greek Cypriot Communist party, which is the largest political grouping, will drive a hard bargain on three financial issues due to be discussed with the European Commission next year – interest rate deregulation, the favourable tax treatment given to international shipping using Cyprus as a "flag of convenience", and the status of more than 30,000 Cyprus-based offshore companies.

But even the speediest of accession procedures will be overshadowed by Cyprus's division into Turkish and Greek sectors. Last week, Greece repeated its threat to block accession for the central Europeans if Cyprus was excluded from the first wave of entrants. But the question of whether to admit the island and its problems to the EU so long as it remains divided is by no means resolved.

Reports by Stefan Wagstyl in London, Neil Buckley in Budapest, Christopher Bobinski in Warsaw, Robert Anderson in Prague and Kerin Hope in Athens

Editorial Comment, Page 15

Strauss-Kahn defends new left 'homogeneity'

By Robert Graham

Dominique Strauss-Kahn, French finance minister, yesterday gave a spirited defence of the new economic thinking among Europe's left-of-centre governments; insisting the left had abandoned its long-standing "distrust for and interference in markets".

With Socialists or Social Democrats running 13 of the 15 European Union governments, he said there was now "a rare degree of intellectual homogeneity". The right, he insisted, could no longer pin the label "tax-and-spend" politicians on this new left.

In a speech marking the 25th anniversary of the Centre for Economic Policy Research in London, Mr Strauss-Kahn also gave his first detailed views on the exchange rate policy of the euro. Euro-zone finance ministers could, in certain circumstances, intervene in the exchange rate but he did not endorse formal target zones for parities.

The European Left no longer considered free markets as subjects "you should either destroy or revere" but rather "essential institutions of a modern economy, which governments should abstain from interfering in".

However, governments had a responsibility to enforce basic rules and they should be ready to reform market structure if necessary. The left, he said, would show that price stability and fiscal rectitude were not the preserve of right-wing economic orthodoxy. "Gone are the days when Margaret Thatcher's Britain and François Mitterrand's France were implementing almost entirely opposite policies," he said.

Turning to the euro, he warned of the risks of upward pressures on the value of the single currency because of a shift in the demand for euro-denominated assets. Whatever the magnitude of this risk, he said it was important to avoid a combination of tight money and lax budget policies that could foster an appreciation of the euro.

Mr Strauss-Kahn said EU finance ministers should monitor developments closely and "make use, if necessary, of the provisions of article 109 of the Maastricht Treaty". This permits finance ministers, after consultation with the European Central Bank, to set exchange rate policy guidelines.

Euro-zone interest rates seen as low enough

ECB watch

By Wolfgang Münchau in Frankfurt

Senior officials of the European Central Bank have been going out of their way recently to damp expectations that the bank will cut interest rates to below 3.3 per cent during the first half of 1999.

Wim Duisenberg, ECB president, gave a fairly optimistic prognosis for the euro-zone economy last week, while Otmar Issing, chief economist, said the impact of the global economic slowdown on Europe would be noticeable but limited. Mr Issing added that interest rate cuts in the US did not justify interest cuts in the euro-zone – a clear hint that he believed interest rates were low enough.

Since the ECB has no track record, interest rate forecasts often reflect what forecasters believe ought to happen rather than what they think is likely to happen. Current data and forecasts and statements from ECB officials provide little evidence to suggest that a rate cut is likely without a change in external circumstances – for example, a sharper than expected international slowdown.

Economic data for the euro-zone and some of its member states give out conflicting signals. The global crisis has not yet translated into actual output losses but it has hit business confidence. Consumer spending in the core euro-zone states remains buoyant and the fall in German unemployment from 10.7 per cent in August to 10.6 per cent in September was bigger than analysts had expected.

Most forecasts, including those by the European Commission and private-sector economists, predict a moderate slowdown in economic growth in 1999 and a rebound in 2000, which suggests the effect of the crisis will be limited both in extent and duration. They also predict a stable price environment, with projected increases in the harmonised index of consumer prices of 1-2 per cent in 1999 and 2000 – well within the ECB's inflation target zone of 0-2 per cent.

It would be difficult for the bank to justify a cut in rates on the basis of its policy parameters – a monetary reference range and an inflation forecast. Both appear within their respective target zones. The ECB has yet to publish harmonised monetary data for the euro-zone, but the various national monetary data do not indicate a monetary crunch and virtually no published forecast points to a fall in the general price level.

Economic indicators for euro-11 countries

	Sep 1998	Aug 1998	Jul 1998	Jun 98	May 98	Apr 98	1997	1996
Inflation (annual % change)	1.0	1.2	1.4	1.4	1.4	1.4	1.6†	2.2†
Unemployment (%)	10.9	11.0	11.0	11.1	11.2	11.3	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	71.6	69.7	65.6	63.2	760.8	667.7
Imports	n/a	n/a	58.4	61.4	57.0	60.2	671.4	594.2
Trade balance	n/a	n/a	13.1	8.3	8.6	3.0	89.4	73.5

	May-Jul/ Feb-Apr	Apr-Jun/ Jan-Mar	Mar-May/ Dec-Feb	Feb-Apr/ Nov-Jan	1997	1996
Industrial production (%) (3 mo over previous 3 mo)	1.1	0.9	1.3	1.4	4.1††	0.0††

	Q2 1998	Q1 1998	Q4 1997	Q3 1997	1997	1996
GDP growth (%) Over same quarter last year	2.4	3.8	3.2	2.8	2.5	1.6

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly base
†† annual % change
Source: Eurostat

NEWS DIGEST

IRAQ WEAPONS INSPECTIONS

Saddam 'underestimating international community'

George Robertson, UK defence secretary, warned yesterday that the Iraqi crisis was the most serious since the Gulf war and said the international community's patience was running out.

"He [Iraqi President Saddam Hussein] is dangerously underestimating the international community if he thinks he can go on playing cat and mouse with them," Mr Robertson said at the end of a visit to Kuwait and Bahrain. "International patience is wearing thin with Saddam." While the UK stepped up the rhetoric and US President Bill Clinton's advisers were preparing to present diplomatic as well as military options, Iraq maintained a defiant attitude, refusing to back down and resume co-operation with weapons inspectors, halted on October 31. **Roula Khalaf, London**

INTERNATIONAL TERRORISM

Bin Laden deadline set

Afghanistan's Taliban movement yesterday set a November 20 deadline for the US to provide evidence that exiled Saudi dissident Osama bin Laden is an international terrorist.

The Taliban has refused US requests for extradition of the man accused of masterminding the Kenyan and Tanzanian embassy bombings in which hundreds died, but said it would put him on trial.

"If there is no proof submitted against bin Laden, then he is innocent. We cannot wait forever for this drama," Noor Mohammad Saqid, the Taliban's chief justice, said. "We will listen to both sides' statements," he said. "The one who makes the claims must present his witnesses and prove the case against the accused, otherwise he will fail."

The chief justice promised the procedure would deliver "100 per cent justice" according to Sharia law.

Mr bin Laden has been living in Afghanistan as a "guest" of the Islamic militia. The Taliban's senior spokesman, Wakil Ahmad, said the movement would continue to refuse US requests for his extradition. The US has offered a reward of $5m for the arrest of Mr bin Laden and in August attacked with cruise missiles what it said were his training camps in south Afghanistan. **Reuters, Kabul**

ANGOLA DIAMONDS

Five die in mine attack

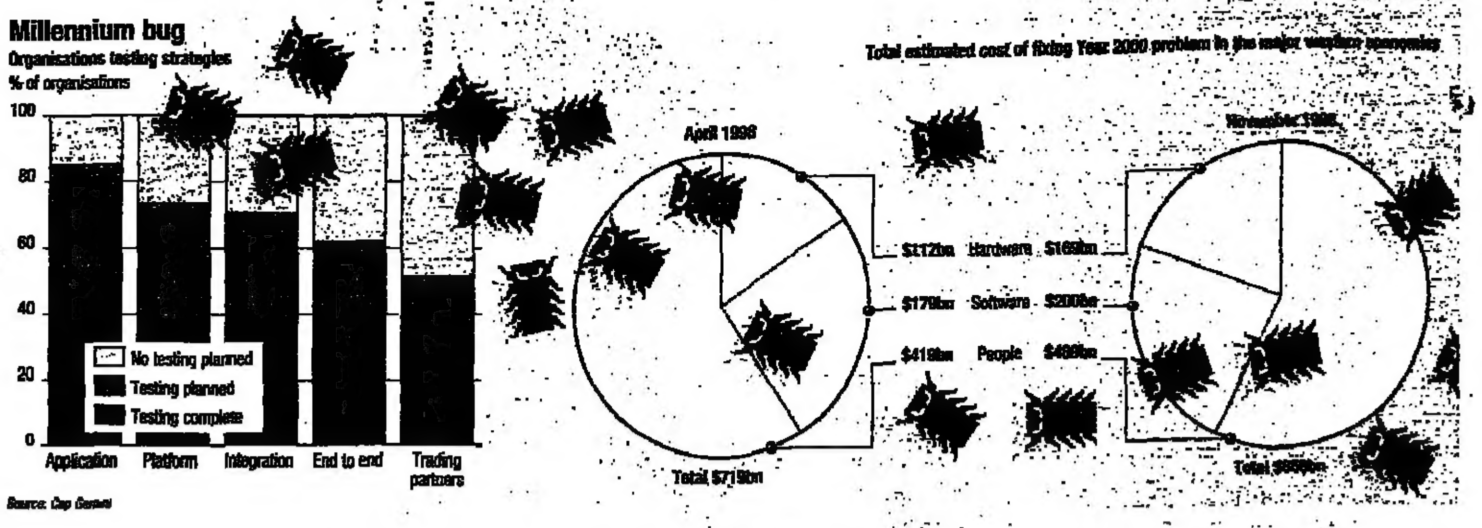
About 50 armed men have attacked a diamond mine in Angola, killing five people and taking four hostage, the owner DiamondWorks of Canada reported yesterday.

Two of the dead were British, one a manager and the other an engineer. Two Angolans and a Portuguese were also killed. A British geologist is among the hostages, as well as a South African and an Angolan with South African residency. Two others are missing, and 18 Angolans were injured in the attack on the Yetwene mine in the Lunda Norte province. DiamondWorks said witnesses said the rebel army Unita was involved. However Michael Grunberg, a DiamondWorks director, said it was extremely unusual for Unita to take hostages. He said no diamonds were taken and the mining equipment and processing plant were undamaged. **Kenneth Gooding, London**

YEAR 2000 COMPUTER BOMB FEARS GREATEST AMONG BEST PREPARED COMPANIES

Worrying paradox for world's businesses

By Christopher Price in London



The year 2000 millennium computer bomb is producing a worrying paradox: those companies and organisations that have made efforts to fix the problem are the least confident that their attempts will succeed.

This is one of a number of disturbing findings in a comprehensive study by Cap Gemini, Europe's biggest software and services group, of the millennium computer problem, when many older systems could malfunction because of their inability to recognise the change of date from 1999 to 2000.

The annual survey found that US groups had already spent 61 per cent of their total estimated year 2000 requirements, with 83 per cent "confident" their systems would cope.

However, the confidence level among European companies and organisations was 95 per cent, in spite of spending less than half their year 2000 budgets.

"Why is the US less confident," asks Geoff Unwin, vice chairman of Cap Gemini? "Because they have seen the size of the problem."

Further evidence for this comes from the 20 per cent increase in the estimated cost of fixing the millennium bomb from $719bn to $858bn in the past six months, according to the report. Mr Unwin says this reflects the fact that once a company begins to tackle the millennium bomb, the scale of the problem becomes apparent and grows.

The biggest paradox was found in France, where 95 per cent of companies said they were confident of their "mission critical systems", while having spent less than half of their intended expenditure on the problem.

The US and Europe moved further apart on plans to adopt measures aimed at preserving business continuity after December 31, 1999. Some 98 per cent of US companies said they had made contingency arrangements, against 60 per cent across Europe. This latter figure ranged from 35 per cent in Germany to 85 per cent in the UK.

Two-thirds of US groups, but only one third of Europeans believe they are at risk from a failure in essential services due to the millennium bomb. The same proportion of US groups also fear the failure of their trading partners' systems as a leading cause for concern. The figure for Europe is barely a quarter, with Germany and Spain the lowest with 13 per cent.

Not surprisingly, American companies are well ahead of their European counterparts in taking contingency measures. For example, 38 per cent of the former have plans to stockpile items essential to the business ahead of the millennium. This figure drops to 19 per cent in Europe, with Germany (8 per cent) and Belgium (9 per cent) at one end and Sweden (34 per cent) at the other.

More than two-thirds of US groups have made plans to use alternative trading partners, compared with 28 per cent in Europe.

The survey found that the Nordic countries had among the lowest expenditure required to solve the computer bomb, while also having the lowest level of expenditure as a proportion of their total IT spend. Thus Norway, Finland and Denmark have an estimated year 2000 expenditure of between $2bn and $3bn each, which accounts for between 35 and 45 per cent of their annual IT outlay.

Spain fared the worst in the study, which found that its $11bn year 2000 problem was equivalent to the country's entire annual IT expenditure. This will result, the study calculates, in a third of all Spanish companies not being "finished" in time for January 1, 2000.

Other countries highlighted as likely to be left unprepared include the Netherlands, where a fifth of all companies are forecast to be unready. The UK is the next worst, some 13 per cent of companies being unfinished, with Germany close behind.

The US dominates expenditure on the problem, accounting for $655bn of the $862bn total required to solve its computer bomb problem, equivalent to 90 per cent of annual IT expenditure. However, its moves to tackle the issue leads the study to forecast that just 1 per cent of US companies will not be ready in time.

Of the other countries studied, Italy, Norway and Finland are forecast to have no companies left unprepared for the millennium bomb. The figure for Denmark is 2 per cent of companies unprepared, 3 per cent for Sweden, and 4 per cent for France and Belgium.

However, Chris Webster, the report's author, warns that in asking companies whether or not they would be ready for year 2000 also begged the question of which criteria the respondents were using in testing their computer systems.

"Some companies are more rigorous than others in their testing and it remains to be seen how effective they have been."

Company conduct codes 'fail to hit target'

By Frances Williams in Geneva

Proliferating company codes of conduct, social labelling schemes and ethical investment initiatives are not necessarily helping those supposed to benefit, according to a study prepared for the International Labour Organisation.

The ILO study says increasing calls for businesses to be responsive to social concerns, and the need for companies to protect their image, have produced numerous voluntary initiatives to promote good labour practices within companies and their suppliers.

However, many of the initiatives are highly selective. Some, for instance, target only child labour. Relatively few are based on the ILO's international standards and most are drawn up without consulting workers in poorer countries, usually the intended beneficiaries, on their priorities.

The ILO's tripartite governing body, which meets this week and next, is due to discuss whether the organisation should itself draw up common guidelines for the content and monitoring of codes of conduct and other voluntary initiatives.

An analysis of 215 codes of conduct found that three-quarters contained provisions on occupational safety and health. Two-thirds tackled discrimination in employment, slightly less than half concerned child labour and about one quarter prohibited forced labour, three of the ILO's four core labour standards.

Though 40 per cent referred to wage levels, often rather vaguely, only 15 per cent made any references to freedom to join a trade union and bargain collectively, the other fundamental ILO principle. Definitions of worker rights also frequently varied from those contained in ILO standards.

The study also criticises implementation of the codes. "Not infrequently, codes launched with much publicity in an import country are unknown, unavailable or untranslated at producing facilities," it says. Monitoring varies from simple self-assessment to external audits.

Social labelling initiatives suffer from similar weaknesses, the study finds.

Compliance costs can be high, penalising enterprises in poor countries. Labelling initiatives that target child labour in export industries can drive child workers into other less visible and possibly more dangerous jobs.

"The market alone, without a coherent international framework, has been ineffective to date in developing uniform and generally accepted standards that could help promote benefits and prevent the risks of labelling efforts," the study says.

S Africa faces six years of trials to deal with human rights abuses

By Victor Mallet in Johannesburg

South Africa faces six years of investigations and trials to deal with those who committed human rights abuses during the apartheid era, a senior state prosecutor said yesterday.

Jan d'Oliveira, deputy director of national prosecutions who has been investigating political crimes under the former regime, said his office was preparing several cases. These included some against former security force generals and against Wouter Basson, head of the old regime's chemical and biological warfare programme. It was also investigating the affairs of Winnie Madikizela-Mandela, the convicted kidnapper and ex-wife of President Nelson Mandela.

Mr d'Oliveira's comments are likely to fuel a debate in South Africa about whether to grant a blanket amnesty to all political criminals.


Winnie Madikizela-Mandela: affairs being investigated

He was speaking 10 days after the country's Truth and Reconciliation Commission issued a 3,500-page report which found the previous white minority government guilty of gross human rights violations between 1960 and 1994. The report also condemned the Inkatha Freedom party of Mangosuthu Buthelezi, now the home affairs minister, and the ruling African National Congress.

"We're looking at six years of prosecutions," Mr d'Oliveira told the Pretoria Press Club. "We know where we are going. With some of those mentioned in the report we are in fact a long way down the road preparing for them. We need just the go-ahead, in the absence of amnesty, to take these into court."

Although the commission's main hearings have now ended, it continues to process amnesty applications from former government agents and their guerrilla opponents. Amnesty is granted to those who committed crimes for recognised political ends and who make a full disclosure.

Those who have not sought amnesty, including Mr Buthelezi and ex-president P.W. Botha, may now be prosecuted. Some South Africans - including extreme rightwing white politicians and leftwing members of the ANC - are calling for a blanket amnesty for all offenders so that the country can put the past behind it. Others argue that this would undermine the whole purpose of the commission and be an insult to those who sought amnesty and publicly repented.

Mr d'Oliveira said his office would continue to prosecute suspects, including those of the "highest rank", unless ordered to call a halt. "If the representatives of society agree that it must stop, they must pass a law. In the meanwhile, we will continue with the justice process."

He admitted, however, that new criminal cases were already putting a burden on the justice system. "We have past crimes on the one hand and current crime, which is increasing, on the other hand. Somehow we have got to attend to both."

MIDDLE EAST PEACE PROCESS NETANYAHU INSISTS ON VOTE ON PALESTINIAN CHARTER

US angered as Israelis erect another Wye accord obstacle

By Judy Dempsey in Jerusalem

When an enthusiastic President Bill Clinton forged last month's new Israeli-Palestinian interim accord, he promised to visit the region in December.

He said he would address a meeting in Gaza at which Yassir Arafat, president of the Palestinian Authority, senior officials of the Palestine Liberation Organisation and invited members of the 700-strong Palestine National Council (PNC) would be present.

But little did US officials realise how Israel would contest the meeting, and in doing so place another obstacle in the way of implementing the Wye Plantation accord. This time it was the Palestinian Charter which had once called for the destruction of Israel.

In the Wye accord, Mr Clinton, Mr Arafat, and Benjamin Netanyahu, Israeli prime minister, had agreed participants at the Gaza meeting would "reaffirm their support for the peace process and the . . . decisions of the Executive Committee and the Central Council". Those committees' "decisions" involved reaffirming a letter Mr Arafat sent to Mr Clinton last January, specifying which clauses that called for the destruction of Israel had been annulled by the PNC in April 1996.

Then, in an historic vote, by 504 to 54 the PNC approved a resolution calling for the charter to be amended – after the then Israeli government under Shimon Peres, and the US, had first approved the resolution's wording.

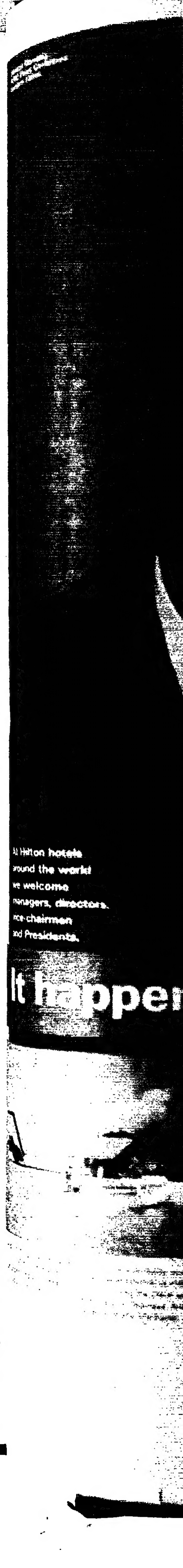
But on his return from Wye, Mr Netanyahu insisted that instead of a reaffirmation, all PNC members should again vote to annul the offensive clauses. Otherwise, said government officials, the Wye accord which entails Israel handing over 13 per cent of West Bank land in return for greater security guarantees, would not be implemented. "It was as if the Wye accord did not exist," said one Palestinian negotiator.

The US, surprised by the turn of events, is worried that, if pushed, Mr Arafat might be unable to muster a strong majority to reaffirm the changes in the covenant.

That was the reason why the wording in Wye was chosen: it was considered a workable compromise for Mr Netanyahu and Mr Arafat to save face from their respective opponents of the peace accords.

Palestinian negotiators believe Mr Netanyahu is backtracking on the Wye accord in order to delay its implementation. Mr Netanyahu, however, argues that the original PNC vote did not go far enough since neither the changes nor the annulled clauses were ever published. In any case, added one of his advisers, the Wye accord is open to many interpretations. "How can you reaffirm something without a full vote?" asked one official.

US officials are increasingly angry about the impasse. In a letter sent by Edward Walker, US ambassador to Israel, to Danny Naveh, Israel's cabinet secretary, he repeated the terms of the Clinton meeting. "We will not change them and they will remain our policies in the future," wrote Mr Walker. It is not certain who will blink first.



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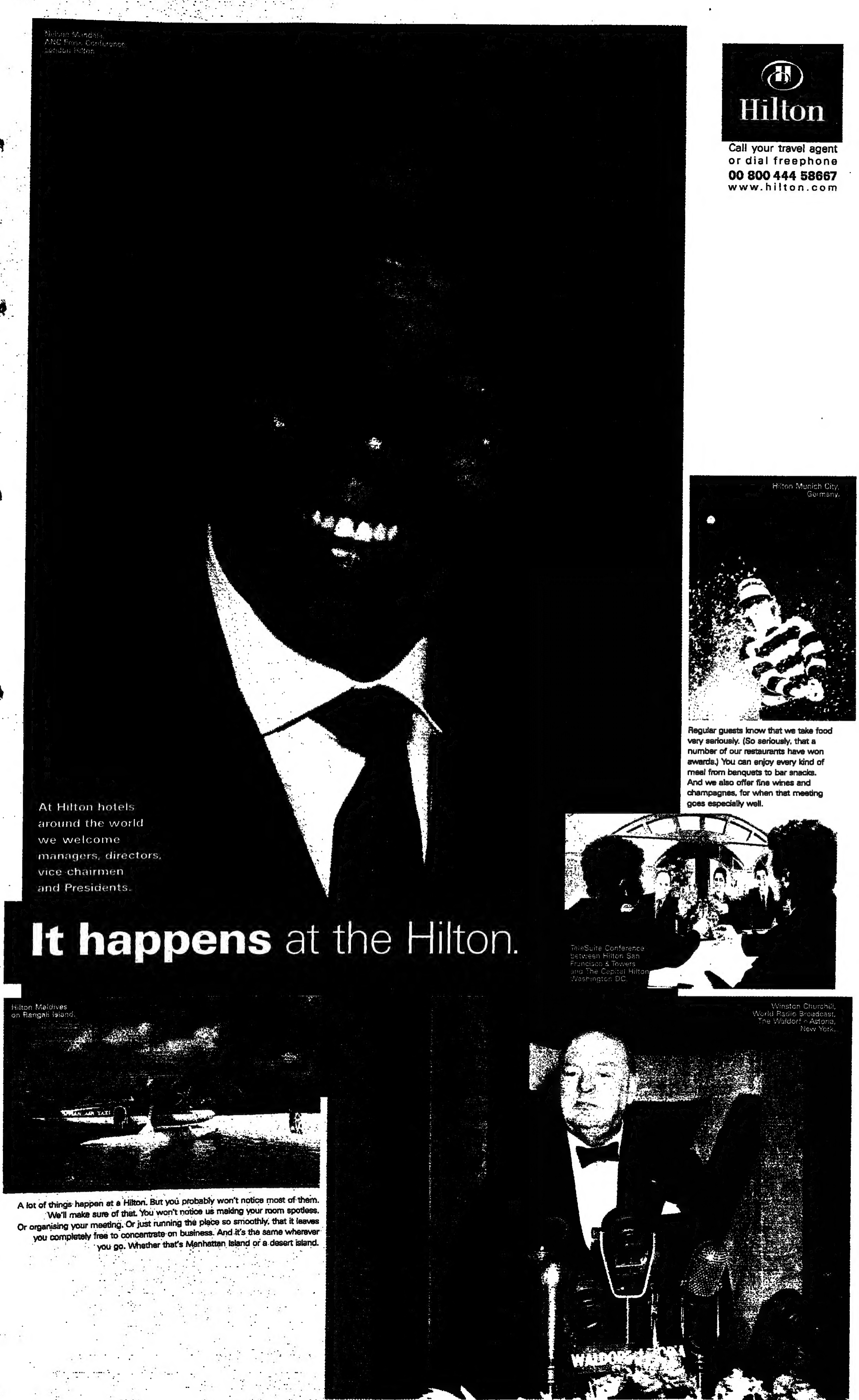


HK Gitic creditors may recoup half of loans

By Louise Lucas in Hong Kong

Creditors of Gitic Hong Kong, whose mainland parent collapsed last month, could receive repayment of just over half the value of their loans, according to first estimates by the liquidators.

The estimates set a bearish tone for creditors of the parent, Guangdong International Trust and Investment Corporation (Gitic), the investment agency of China's prosperous southern province and recipient of an estimated US$2bn loans from foreign banks.

China's central bank has pledged to make foreign creditors who registered their loans a priority for repayment. However, no guidelines have yet been issued on the terms for repayment and jitters within the banking sector have prompted some banks to rein in their China lending.

Lenders to Gitic Hong Kong, incorporated but not listed in the territory, will receive repayment in line with sale of the company's assets. Payment will depend upon how much these raise. KPMG Peat Marwick, the liquidator, says their book value is HK$3.6bn (US$465m), while total debts come to around HK$3.2bn.

Analysts say KPMG Peat Marwick's estimated payment of 54 cents in the dollar could prove ambitious given the weak state of the market into which it is hoping to liquidate the group's such as properties and stakes in infrastructure projects.

The main asset is Gitic Enterprises, which was listed in Hong Kong last March and has a market capitalisation of around US$33m, according to Goldman Sachs. Trading in the company's shares has been suspended since last month.

The payout is also clouded by inter-company balances between Gitic Hong Kong and its parent, and the so-called letters of comfort – once viewed as quasi-government guarantees – which the collapsed parent had issued to help support its Hong Kong unit's borrowings.

The liquidation process began in earnest yesterday with the formal appointment of KPMG Peat Marwick and the setting up of a steering company of five banks. Those represented, including Bank of East Asia of Hong Kong and Dai-Ichi Kangyo Bank of Japan, are among the worst hit by the Gitic collapse. The Hong Kong Monetary Authority, the territory's *de facto* central bank, estimates that banks based in the territory have a total exposure of HK$11bn to Gitic, and of HK$44bn to China's other Itics, of which there are some 240.

Australia damps rate cut rumours

By Gwen Robinson and Peter Montagnon in Canberra

Australia's central bank yesterday damped market speculation about an imminent cut in official interest rates. It gave the economy cautious endorsement while acknowledging a likely slowdown in growth next year and warned of a possible increase in inflation to the top end of the 2-3 per cent target.

In its six-monthly statement on monetary policy, the Reserve Bank of Australia said the external environment remained the main source of uncertainty, and could become "more difficult still, particularly if growth in the US economy slowed more sharply than currently expected".

Australian financial markets have driven down government bonds in the past 10 days on rate cut rumours. However, the statement "left the door open" for a later easing of rates if growth slowed and low inflation continued despite a steady rise in import prices, said John Edwards, chief economist with HSBC Markets.

Borrowers had experienced interest rate falls in the past year while exporters had been helped by exchange rate levels, the bank said. In the past six months, when the steady plunge of the Australian dollar to US$0.57 fuelled expectations of an interest rate cut, the RBA was able to hold official rates – thanks largely to a relatively low inflation rate and reasonable economic growth, the bank said.

Real economic growth in Australia in 1999 would probably slow to less than 4 per cent, the bank added. The government has forecast growth of 2.75 per cent in the year to June.

Parliament is expected in its term starting today to debate the plan by John Howard, prime minister, to introduce a 10 per cent goods and services tax by 2000. Mr Howard has also promised more than A$13bn (US$8.2bn) in personal income tax cuts to be financed largely through projected budget surpluses.

Standard & Poor's, the international credit rating agency, said yesterday that Australia remained "on track" to maintain its projected budget surpluses and cut debt, which could eventually lead to an upgrading of S&P's Australian rating.

Its long-term foreign currency rating for Australia has stood at AA with a positive outlook since 1996.

Protesters put pressure on Habibie

By Sander Thoenes in Jakarta

When Indonesia's legislators gather today for the first round of real voting in 30 years they will be watching protests outside parliament as closely as the debates inside.

Inside the members of the People's Consultative Assembly – 500 members of parliament and 500 appointed representatives – are to call general elections next year, limit the president to two terms and debate whether to curb the powers of the military and put the former president, Suharto, on trial.

The five factions in the assembly – once a rubber stamp for Mr Suharto's decisions – are eager to prove they are really people's representatives and may pose a challenge to the government of President B.J. Habibie, by urging it to move ahead with investigations of Mr Suharto's ill-begotten wealth. But Mr Habibie enters the session boosted by signs the economy is no longer in free fall and opposition groups are content to leave him in charge until the elections.

The real threat to his hold on Indonesia will be outside the assembly, where thousands of student protesters are expected to face Moslem groups loyal to Mr Habibie, more than 20,000 regular military and a ragtag of paramilitary and civilian guards hired to protect the assembly grounds.

The armed forces are keen to repair their image as guardians of stability, battered by their failure to contain massive riots in May, an upsurge in crime and a recent wave of mysterious killings of Moslem clergy and sorcerers. But protesters are calling for their removal from parliament – where they hold 75 seats – from government posts and from the economy, where they control big business empires in forestry, real estate and other industries.

Jakarta's intellectuals were shocked to find paramilitary groups, some linked to infamous racketeers accused of organising the May riots, were parading in the parliament grounds. Government critics and the influential Sultan of Yogyakarta have warned they could provoke violence rather than discourage it.

Some of at least four student protests in the capital and several others in leading cities proceeded peacefully yesterday. But police wounded two protesters when blocking a group from approaching the presidential palace and wounded nine students at a protest in the central Javanese city of Surabaya. Small pro-government groups rallied near parliament but some 2,000 anti-government protesters were stopped 2km from the legislature and turned back.

Some student groups have warned of drastic action unless the assembly meets their demands for a curb on the military and a trial of Mr Suharto, but the students are divided and leading opposition leaders have stayed on the sidelines.

Riot police battling with demonstrators outside the presidential palace in Jakarta yesterday Reuters

Man and machine mystified by negative interest rates

Gillian Tett in Tokyo and **Edward Luce** in London explain why yen interest rates are falling below zero

Computer screens in Tokyo dealing rooms went blank at one stage last week. Like many of their human masters, the computers were not equipped to understand – or to recognise – negative interest rates.

What happened was that the yield on one Japanese treasury bill had dipped below zero, the first time in living memory such a thing had happened to a government bond.

For several consecutive days, including yesterday, western banks have been quoting negative rates on inter-bank yen-denominated deposits. This means that banks such as Barclays Capital and J.P. Morgan have effectively been charging to look after yen deposits.

This unusual phenomenon is so far confined to the wholesale markets. But economists say there is no logical reason why the interest rate on normal customer deposits in Japan should remain above zero.

"If the Bank of Japan reduced interest rates to zero [currently they are at 0.25 per cent] then deposit rates could fall to zero or even below," said Peter Wilson, an economist at Tokyo Mitsubishi in London. "Banks would basically be taking a charge to look after the depositors' money."

Negative rates have emerged because of an unusually large demand for dollars by Japanese banks which need to boost their overseas dollar assets before the end of the calendar year.

At the same time, there is very strong liquidity in the market with the Bank of Japan pumping yen into the banking system in an attempt to kick-start domestic lending. This, combined with the fact that there is a question market over the creditworthiness of Japanese banks, means that their western counterparts can get away with paying sub-zero rates on yen which the Japanese banks have deposited in exchange for dollars.

"The driving force behind the negative rates has been the fact that Japanese banks are trying to raise large amounts of dollars," says William Campbell at J.P. Morgan in Tokyo.

Traders say that the situation could reverse if, as has been rumoured, the Bank of Japan steps in to provide dollars for domestic banks. This would partially restore the supply/demand mismatch between dollars and yen and possibly ease the spreads which foreign banks charge Japanese banks for access to dollars. "We have never seen conditions like this," said one trader. "It is beyond panicking."

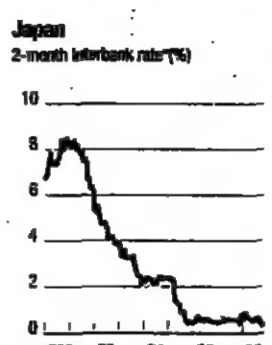
Underlining this is the fact that the Japanese economy is on the verge of deflation. In normal conditions inflation can erode the value of debt, which is why the yield on government bonds is so sensitive to price movements in the real economy. But in a deflationary climate the real value of debt rises when prices fall, potentially crippling the borrower's ability to repay. As a result, the effective interest rate on all sorts of yen assets – including government bonds – is close to or even below zero.

"In this sort of climate, the key aim is to conserve the value of your assets rather than earn a real return," said an economist in London.

The net effect is that western banks have little or no use for the yen which they take from their Japanese counterparts in exchange for dollars of an equivalent maturity. The US and European banks have been scrambling to find risk-free havens for the yen. And since many have chosen to buy yen treasury bills, the yield has tumbled, touching minus five basis points on six-month treasury bills at one point last week.

"Buying bills with a negative yield rate may seem crazy, but if it is funded with an even more negative rate of interest, it makes sense," one trader explains.

Bankers in Tokyo say that the trend is being compounded by the fact that some banks, such as Tokyo Mitsubishi and Norinchukin, an agricultural bank with strong political connections, less willing than they were to lend dollars to other Japanese banks. Moody's, the US credit rating agency, recently threatened to downgrade Norinchukin because of its large dollar exposure to other Japanese banks.



* The current rate is negative for some of the 16 banks used to calculate it
Source: Datastream/ICV

Some observers think the situation is now so severe that the Bank of Japan will be forced to intervene soon. The yield on six month T-bills closed at plus five basis points on Friday, amid rumours that the bank was preparing to make direct dollar loans to banks. "It seems unlikely that the government can get away with doing nothing," argues Masuhisa Kobayashi of Merrill Lynch.

However, the bank's constitution forbids it to make such direct dollar loans, and its officials insist that they have no plans to flout the constitution yet. The Tokyo market, in other words, could continue to set records for some time yet. "We may need to find some way to reprogramme our screens," says one trader.

Japanese advert sales fall 9.6%

By Naoko Nakamae in Tokyo

Advertising agencies in Japan saw sales fall 9.6 per cent year-on-year in September – the largest drop for more than five years, according to figures released yesterday by the Ministry of International Trade and Industry. In addition, for the first time in the monthly report's 11-year history, sales in the information service industry fell for two consecutive months.

The figures reflect the sharp downturn in Japan's economy, with companies cutting back on advertising spending. Big advertisers such as car manufacturers, banks and other financial companies have seen marked contractions in their earnings, and have been pruning their marketing budgets. All forms of advertising were hit – television, radio and print – with newspaper ads showing the sharpest decline, falling 14.5 per cent year-on-year.

A related forward-looking survey of the advertising industry also indicated pessimism within the sector was growing.

Equally disturbing was the 0.4 per cent sales contraction in the information services industry, since the sector had shown notable resilience to recession in the past. The report blamed the drop in sales revenue to poor demand and falling prices for software products.

Database sales to government offices, public agencies and the financial industry also contributed to negative performance, although demand for systems maintenance from the financial and manufacturing sectors showed strong growth.

The leasing and rental industries also saw large declines in sales. Struggling general contractors proved to be a bad market for engineering and construction machinery rentals, and contributed to the 15.2 per cent year-on-year drop in rental sales.

The leasing industry fared little better, as more and more companies trimmed their equipment investment. The credit card industry was the only service sector to buck the trend, with sales growth steady at 3.2 per cent year-on-year.

Group seeks press freedom in SE Asia

By Ted Bardacke in Bangkok

Independent journalist organisations in south-east Asia have set up an association to promote and protect press freedom in the region as civic groups continue to push forward a democratic agenda in the nine-member Association of South East Asian Nations (Asean).

Titled the South East Asian Press Alliance, or Seapa, the organisation is modelled on the World Press Freedom Committee and the US-based Committee to Protect Journalists. Like its sister organisations, Seapa plans to document attacks on journalists and threats to press freedom, lobby governments on media issues and maintain a censorship index ranking of Asean countries.

The founding of Seapa by independent national press watchdog organisations from Indonesia, the Philippines and Thailand highlights a shift in the balance of power within Asean towards more open and free debate before next month's Asean summit in Hanoi.

The fall of Indonesia's President Suharto has been crucial in this shift. Since he left office last May, approximately 350 news outlets in Indonesia have been given licences to operate and a previously staid local media has been invigorated. Thai and Filipino journalists who operate in a relatively free atmosphere now have an important ally from one of Asean's core member states.

NEWS DIGEST

WARNING FROM CHINESE SCIENTISTS

Beijing seeks protection against earthquakes

Chinese authorities are taking seriously warnings from scientists that northern China could suffer a destructive earthquake over the next few years and plan to reinforce important buildings.

The China Daily newspaper said some RMB544m ($66m) was to be spent strengthening buildings in Beijing and nine surrounding cities, including Tianjin, Chengde and Tangshan. Landmark buildings constructed in the 1950s and 1960s will be given priority. In January, an earthquake measuring 6.2 on the Richter scale killed around 50 people and injured more than 10,000 in Hebei province. The worst earthquake in modern history was at Tangshan in 1976. It measured 7.8 on the Richter scale and killed at least 240,000 people. **James Kynge, Beijing**

BANGLADESH PROTESTS

Two killed in Dhaka violence

At least two people were killed in the Bangladeshi capital Dhaka yesterday during a countrywide general strike called by the opposition to protest against what it called government repression.

The strike, now extended to three days, was called by an alliance led by the Bangladesh Nationalist party (BNP), the biggest opposition group. The deaths come a day after 15 former army officers and politicians were sentenced to public execution by firing squad for their part in the 1975 assassination of Sheikh Mujibur Rahman, the country's independence leader. The opposition has protested against the charging of three opposition figures with conspiracy to murder four of Sheikh Mujib's political allies eight weeks after his assassination. **David Chazan, Dhaka**

THAI LAND AND PROPERTY AUCTION

Prices higher than expected

A weekend auction of land and property seized from Thailand's bankrupt finance companies fetched prices far in excess of expectations but more than half the lots up for bid were left unsold, the organisers said yesterday.

Thirteen lots with a total minimum price of Bt581m ($15m) sold for Bt778m, while another 60 lots with a total minimum price of Bt195m were sold for Bt323m. A total of 318 pieces of real estate with a total minimum price of Bt3.85bn were offered. **Ted Bardacke, Bangkok**

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1990=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1987	220.2	−131.8	−145.6	1.1541	107.8
1988	272.5	−100.2	−108.4	1.1833	100.5
1989	330.2	−99.3	−94.6	1.1017	104.8
1990	309.0	−79.3	−72.1	1.2745	100.0
1991	340.5	−53.5	−4.6	1.2391	98.5
1992	345.6	−65.2	−43.5	1.2957	95.5
1993	397.3	−98.7	−73.5	1.1705	95.5
1994	432.3	−127.0	−104.4	1.1857	97.8
1995	452.3	−122.8	−99.2	1.2928	91.8
1996	499.0	−135.9	−107.7	1.2536	96.6
1997	609.4	−160.5	−137.2	1.1309	104.4
3rd qtr.1997	160.8	−42.0	−35.0	1.0893	105.1
4th qtr.1997	157.0	−41.5	−40.0	1.1245	106.4
1st qtr.1998	159.8	−47.3	−43.0	1.0874	108.1
2nd qtr.1998	151.6	−55.8	−51.3	1.1020	110.8
November	50.9	−13.7	n.a.	1.1421	105.8
December	52.9	−14.4	n.a.	1.1122	108.3
January 1998	53.6	−14.8	n.a.	1.0873	109.8
February	52.5	−15.7	n.a.	1.0892	106.4
March	53.5	−17.6	n.a.	1.0857	108.1
April	51.2	−18.6	n.a.	1.0937	109.7
May	50.0	−19.4	n.a.	1.1102	110.2
June	50.5	−17.5	n.a.	1.1002	112.3
July	49.8	−17.8	n.a.	1.0992	113.0
August	49.9	−19.2	n.a.	1.1028	114.8
September				1.1599	109.9
October				1.2021	105.4

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	194.7	83.7	72.8	166.58	104.7
1988	218.7	79.8	67.5	151.51	119.9
1989	245.5	70.6	60.1	151.67	110.8
1990	220.0	50.0	28.2	183.64	100.0
1991	249.4	77.7	59.2	166.44	108.4
1992	258.6	99.2	85.6	164.06	113.6
1993	300.3	118.6	110.8	130.01	136.5
1994	325.0	121.3	110.0	120.99	147.0
1995	331.1	102.8	87.7	121.43	154.4
1996	320.1	67.4	53.9	138.24	134.0
1997	361.8	80.2	83.3	136.84	126.1
3rd qtr.1997	96.8	25.2	24.0	128.47	131.1
4th qtr.1997	89.8	25.1	25.1	140.91	122.2
1st qtr.1998	89.0	27.4	26.8	139.32	121.2
2nd qtr.1998	83.2	26.2	25.3	149.58	114.3
November	29.2	8.4	8.0	143.21	121.4
December	29.2	7.7	7.8	144.17	118.7
January 1998	30.4	8.2	7.8	140.80	120.0
February	29.8	10.5	11.2	137.00	123.4
March	28.8	8.7	7.8	140.17	120.5
April	27.6	8.0	6.1	144.28	117.8
May	27.9	10.5	9.8	149.80	114.5
June	27.5	8.7	9.5	154.60	110.6
July	27.8	8.8	8.5	154.66	110.5
August	26.8	8.9	9.8	159.70	107.5
September				150.56	113.4
October				146.38	124.7

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	254.4	56.8	40.6	2.0710	97.3
1988	272.6	61.4	42.4	2.0739	96.6
1989	310.1	65.1	51.5	2.0681	95.9
1990	324.8	51.5	38.4	2.0537	100.0
1991	327.8	11.1	−14.4	2.0480	99.2
1992	330.9	16.6	−14.8	2.0187	102.1
1993	325.2	30.4	−12.0	1.9337	108.1
1994	360.2	37.2	−17.1	1.9196	106.4
1995	405.0	46.0	−17.5	1.8606	111.9
1996	418.6	52.1	−11.0	1.8844	108.9
1997	454.3	59.4	−3.5	1.9644	103.9
3rd qtr.1997	117.3	16.1	−3.4	1.9872	102.3
4th qtr.1997	117.0	15.6	2.9	1.9740	103.3
1st qtr.1998	119.4	18.6	−3.7	1.9777	102.7
2nd qtr.1998	122.0	18.4	3.5	1.9756	103.7
November	39.2	5.3	0.5	1.9784	103.5
December	39.2	5.1	5.1	1.9781	103.2
January 1998	40.2	4.2	−4.2	1.9799	102.8
February	38.9	5.9	−0.4	1.9748	102.7
March	39.4	6.5	n.a.	1.9835	102.5
April	41.9	6.5	1.1	1.9819	103.0
May	39.8	7.0	0.6	1.9887	104.1
June	40.3	5.5	1.5	1.9754	104.1
July	42.5	6.4	−0.4	1.9768	104.2
August	39.6	4.9	−2.2	1.9724	104.7
September				1.9668	105.4
October				1.9699	105.8

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	128.3	−4.6	−3.7	6.9285	98.9
1988	141.9	−4.7	−3.4	7.0354	96.9
1989	162.9	−4.3	−3.6	7.0199	96.0
1990	170.1	−7.2	−7.2	6.9202	100.0
1991	175.4	−4.2	−4.8	6.9643	98.3
1992	182.5	4.5	2.8	6.8480	101.5
1993	179.6	13.3	8.0	6.6281	105.0
1994	198.9	12.6	5.4	6.5659	105.1
1995	219.7	10.4	8.4	6.4490	108.2
1996	230.2	13.6	16.4	6.4088	109.1
1997	255.6	27.1	35.1	6.5825	105.6
3rd qtr.1997	65.9	8.6	8.1	6.6261	104.2
4th qtr.1997	67.3	7.0	10.2	6.6134	105.6
1st qtr.1998	67.5	8.2	7.8	6.6273	105.0
2nd qtr.1998	68.0	6.1	8.3	6.6236	105.6
November	21.6	1.7	2.2	6.6246	105.6
December	22.5	2.5	2.6	6.6219	105.5
January 1998	22.5	2.3	2.6	6.6137	105.2
February	22.6	2.0	3.8	6.6189	105.0
March	22.4	1.9	1.5	6.6493	104.8
April	22.6	2.1	3.3	6.6485	105.1
May	22.6	1.9	3.4	6.6051	106.1
June	22.8	2.1	3.6	6.6235	105.9
July	22.2	2.0	4.2	6.6243	106.0
August	22.2	1.9		6.6123	106.2
September				6.5949	107.1
October				6.5949	107.9

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	101.0	−7.7	−1.9	1494.3	100.9
1988	108.2	−8.9	−5.4	1536.8	97.6
1989	127.8	−11.3	−10.7	1509.2	98.5
1990	133.6	−8.9	−12.5	1522.2	100.0
1991	137.0	−10.5	−19.2	1531.3	98.5
1992	137.9	−8.0	−22.6	1591.5	85.5
1993	152.4	18.1	8.7	1838.7	80.4
1994	161.4	18.8	12.0	1908.5	76.9
1995	181.0	21.5	20.7	2108.4	69.3
1996	201.5	35.0	32.6	1932.1	75.7
1997	206.2	27.2	32.5	1924.0	76.3
3rd qtr.1997	52.5	8.8	10.4	1918.6	78.0
4th qtr.1997	55.8	6.5	8.4	1934.6	76.1
1st qtr.1998	52.4	3.2	2.4	1946.8	75.3
2nd qtr.1998	58.9	6.8	8.9	1948.7	75.7
November	17.9	2.0	2.5	1938.4	76.2
December	17.2	1.4	2.6	1939.8	75.9
January 1998	14.4	0.0	−2.1	1943.7	75.4
February	17.6	0.9	1.4	1948.7	75.3
March	19.8	2.2	3.0	1943.3	75.2
April	18.6	1.5	0.6	1957.6	75.2
May	18.7	2.6	2.7	1942.5	76.0
June	20.8	2.6	3.6	1946.2	76.0
July	21.8	5.4		1948.1	76.0
August	12.8	2.7		1946.0	76.2
September				1943.2	76.5
October				1942.8	76.8

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	112.3	−18.4	−6.8	0.7047	99.4
1988	120.9	−32.3	−24.6	0.6643	105.4
1989	137.0	−36.7	−33.3	0.6738	102.5
1990	142.3	−28.3	−26.2	0.7150	100.0
1991	147.7	−14.7	−11.4	0.7002	100.7
1992	145.9	−17.8	−13.8	0.7359	96.9
1993	156.0	−17.3	−13.2	0.7780	89.0
1994	174.1	−14.4	−2.1	0.7736	89.2
1995	182.8	−14.1	−4.5	0.8190	84.8
1996	209.0	−15.8	−3.3	0.8026	86.3
1997	248.4	−18.8	6.5	0.6906	100.5
3rd qtr.1997	64.5	−4.0	3.1	0.6705	102.5
4th qtr.1997	63.5	−5.9	2.9	0.6772	103.0
1st qtr.1998	61.9	−6.8	−0.7	0.6606	105.4
2nd qtr.1998	61.7	−6.5	0.9	0.6685	105.4
November	20.5	−2.2	n.a.	0.6762	103.8
December	22.1	−1.9	n.a.	0.6701	104.6
January 1998	20.4	−1.4	n.a.	0.6649	104.6
February	20.5	−2.1	n.a.	0.6630	104.7
March	21.0	−2.4	n.a.	0.6532	106.8
April	20.9	−1.8	n.a.	0.6536	107.1
May	19.9	−2.6	n.a.	0.6783	103.4
June	20.6	−2.2	n.a.	0.6763	104.1
July	20.6	−2.1	n.a.	0.6686	105.3
August	20.4	−1.6	n.a.	0.6757	104.6
September				0.6877	103.3
October				0.7091	100.7

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are occasionally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

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SOFTWARE EXPORTS RECORD 65% RISE

Year 2000 solutions boost Indian sales

By Mark Nicholson in New Delhi

India's exports of software services rose at a record pace of 65.5 per cent in the half year to September – the eighth year of growth of more than 50 per cent.

Exports exceeded Rs50bn ($1.2bn) for the period compared to Rs30bn a year earlier, according to the National Association of Software and Service Companies (Nasscom). Total exports last year were Rs65.3bn.

The US is the largest market for India's software service exports, taking 58 per cent. Europe takes 23 per cent.

Dewang Mehta, head of Nasscom, said sales to Europe were now rising faster than those to the US, and he expected India to secure export orders worth $2bn by 2002 by offering currency conversion packages for the Euro.

"The results are very encouraging, particularly since a lot of people thought there would be a fall-off after the nuclear tests – but we've been able to sustain our growth," said Mr Mehta.

Nasscom said software export revenues – a rare success story amid otherwise poor Indian export performance so far this year – rose 47 per cent in dollar terms. Some 23 per cent of software exports were solutions offered by Indian companies to the "millennium bomb" or year 2000 problem.

Prospects for the software industry were further boosted last week when the government confirmed it was ending the state monopoly on internet service provision – opening the business of providing internet access to all comers, and allowing such businesses to be up to 49 per cent foreign owned.

The government said there would be no limit on the number of 15-year licences issued, and only a token fee.

Three licences have already been issued, including one to MTNL, the state-owned fixed line telephone provider for Delhi and Bombay. MTNL said it would invest Rs1bn to service an estimated 200,000 customers by the end of next year.

India has about 130,000 internet links and 500,000 users, 80 per cent through VSNL, the state international telecoms group.

The new internet providers will be free to establish their own international access to the internet, without having to rely on the gateway provided by VSNL – though this will be subject to "security clearance".

Subject to other approvals, the new operators would also be able to offer direct links to new customers, without having to rely on current fixed line suppliers.

Internet providers will be free to fix their own tariffs, and must apply from among three types of licences – all India, areas based roughly on an Indian state, or an within a large city.

THAILAND PIRACY

Microsoft opens informers' hotline

Microsoft yesterday urged consumers in Thailand to avoid pirated software and offered large cash rewards for those who turned in offenders, agencies report.

The US company said it was opening a telephone hotline which Thais could use to inform on any of the 84 per cent of local businesses it believes use pirated or illegal software.

"This is really just the first prong of what will be our overall grand anti-piracy programme here in Thailand," Ron Eckstrom, Microsoft's corporate attorney for South Asia-Pacific said. Callers whose tips resulted in successful prosecutions would receive up to Bt250,000 ($6,850) depending on the amount of help they provided and the quantity of illegal software involved.

Illegal software is endemic in Thailand where the latest programs can be bought from roadside vendors.

ELECTRONIC COMMERCE ONLINE SHOPPING EXPECTED TO SURGE THIS HOLIDAY SEASON

Internet set for 5% of sales

By Paul Taylor

Internet-based electronic commerce sales could reach $3,200bn in 2003, representing nearly 5 per cent of all global sales, according to new projections from Forrester Research, the Massachusetts-based market research firm.

"There is no question that internet commerce will represent a significant portion of the global economy over the next five years," said George Colony, Forrester's president at the company's annual forum in Boston.

"To achieve its full potential, businesses need to move quickly to establish market leadership, while governments must nurture electronic commerce with supportive laws and policies. If a favourable climate can be established, internet commerce will reshape the global economy."

Forrester estimates that worldwide internet commerce sales will grow to $1,400bn over the next five years – even if they are hampered by slow adoption by businesses, but could reach $3,200bn if buying and selling on the internet is made simple, secure, and internationally viable.

Both estimates include business-to-business and business-to-consumer sales and EDI (electronic data interchange) orders placed on the internet, but exclude the value of financial transactions. Forrester defines internet commerce as the trade of goods and services in which the final order is placed over the internet.

Mr Colony argues that companies will need to adapt to the internet economy as it evolves from early web marketing and selling experiments to a new business trading model that Forrester calls "dynamic trade".

"Dynamic trade will dramatically change how companies view products and services, production schedules, and pricing models. At the same time, dynamic trade will redefine organisations: their internal processes, external relationships, and technical infrastructure," he said.

● Online shopping is expected to surge this holiday season as more and more US consumers choose the comfort of their own homes to do shopping rather than go to a mall, Reuters adds.

According to a survey by Dell Computer and Louis Harris & Associates, 43 per cent of Americans who use computers said they were likely to shop on the internet this holiday season.

That is a 330 per cent increase over the 1997 holiday season when just 10 per cent shopped online.

Seventy per cent of the 1,943 adult survey respondents who use computers and the internet said they enjoyed shopping online.

Western goods on sale in a Shanghai department store. Foreign retailers have suspended plans for further investment in China

CHINA RETAILING EXPANSION PLANS SHELVED AFTER JOINT VENTURE RULES ANNOUNCED

Foreign investors face new curbs on ownership of stores

By James Harding in Shanghai

Foreign retailers in China have had to postpone expansion plans and cancel proposed investments after Beijing announced measures to limit foreign ownership of stores and supermarkets.

China has set a year-end deadline for the reorganisation of Sino-foreign joint ventures under which many international investors will have to hand majority ownership to their Chinese partners.

The government clampdown on retailers, described as a "reorganisation" of the 277 foreign-funded joint ventures, has been seen as a move to protect domestic shopowners who have lost business to overseas competition.

"Since some of the larger foreign hypermarkets have opened in the south, a lot of food retailers have been put out of business," said the head of one large foreign retailer. His plans to open more stores in Shanghai have been put on hold because the order to move to a minority stake in effect prevents an increase in investment.

Regulations on opening up the retail sector were announced in 1992 and required that pilot commercial joint ventures be approved by the State Council, China's cabinet, and that Chinese partners hold at least 50 per cent of the shares in the joint venture.

But most international investments in retail businesses in China have since been approved by provincial or local governments, which ignored the central government rules and allowed foreign majority ownership and management control.

In Shanghai, for example, there are 72 foreign-invested retail enterprises, of which only nine are understood to meet the requirements for central government approval. Nationwide, about 200 retail joint ventures will have to be restructured to meet the government's re-imposed ownership limits. A number of retail joint ventures, approved by municipal governments, are expected to be closed down.

"This is very bad news for most retailers," said the manager of one foreign company in China. "If you want to expand, you cannot because you are not able to increase your total investment. It is difficult to comply with the regulations as Chinese partners often cannot afford to increase their equity share in the joint venture. If they think they want to encourage foreign investment, they have a funny way of doing it."

Against this background, Marks and Spencer, the UK retailer, has decided to close its office in Shanghai, postponing indefinitely its plans to open its first store in mainland China.

"After three years research, we have come to the conclusion that the timing is not right," said a Hong Kong representative of M&S, which last week announced a fall in interim profits.

The closure of the Shanghai office underlines how foreign enthusiasm for retailing in China has waned, as an oversupplied market has cut margins and the increase in the levels of consumer demands have fallen short of expectations.

"The majority of our customers are from middle income groups. But, our interest is in Shanghai and the size of the middle income group, although it is growing, it is not yet at a level that would justify us opening a store there," M&S said.

Beijing's move to restructure Sino-foreign joint ventures and limit foreign ownership have added to the obstacles facing retailers wanting to operate in China. The measures are also affecting companies – such as German retailer Metro and Park'n'Shop, owned by Hong Kong's Hutchison Whampoa – which already have operations in China and are looking to expand. Ewan Evans, managing director of Park'n'Shop, which has 21 stores in Shanghai, says retailers hope Beijing's instructions will be modified. "This is something that is giving retailers concern," he said, but added: "Having not been told that we have to abide by the new policy immediately, it gives one confidence that there will be a review process."

HOUSE SPEAKER CHRISTOPHER COX DROPS ATTEMPT TO SUCCEED GINGRICH, ENDING PARTY WORRIES ABOUT LEADERSHIP BATTLE

Rival leaves field clear for Livingston

By Mark Suzman in Washington

Bob Livingston, a conservative Louisiana congressman, yesterday looked certain to succeed Newt Gingrich as speaker of the House of Representatives after his main rival dropped out of the race.

Christopher Cox, a California congressman who last week announced his bid for the speakership, said that he was withdrawing his candidacy in favour of Mr Livingston who chairs the powerful House appropriations committee. James Talent of Missouri, who had been considering running for the post, also said he would support Mr Livingston.

Democrats reacted cautiously to the prospect of Mr Livingston taking over the speakership. Joe Lockhart, President Bill Clinton's press secretary, said previous relations with Mr Livingston had been a "mixed bag". "We're going to keep an open mind."

Mr Cox's decision followed a frantic weekend campaign in which both he and Mr Livingston lobbied members for support. But with most of the party's senior committee chairmen backing Mr Livingston, it quickly became clear that Mr Cox was unlikely to amass the necessary votes. "The truth is the vote is in," Mr Cox said. "Bob Livingston is going to be our next speaker and I'm withdrawing my name for that reason."

In a detailed letter to his colleagues explaining his decision, Mr Cox said Mr Livingston deserved unanimous support to ensure that Republicans were able to use their narrow majority to push their policy agenda forward.

The announcement came as a relief to party members, many of whom had been concerned by the prospect of a divisive leadership battle in the run-up to the party's internal elections next week. With Mr Livingston promising to move away from the confrontational style of Mr Gingrich, the move now sets the stage for much greater bipartisan co-operation in the next Congress.

In public statements over the weekend, Mr Livingston stressed that with only a narrow Republican majority, he would make a particular effort to co-operate across party lines.

Mr Gingrich announced his decision to step down from the post he held for the past four years last Friday in the wake of the party's poor showing in last week's mid-term congressional elections.

Several other party leaders, most notably Dick Armey, the House majority leader, remain at risk of losing their positions. Mr Armey is facing a challenge from Steve Largent, an Oklahoma Congressman.

John Boehner, the party's conference chairman, is also being challenged by at least two rivals. However, Tom DeLay, the majority whip and a strong early backer of Mr Livingston's candidacy, looks set to survive.

Gates attacks Intel's 'low quality' software

By Richard Wolffe in Washington

Bill Gates, chief executive and founder of Microsoft, attacked Intel, his central partner in the personal computer revolution, for developing "low quality" software, a court heard yesterday.

Mr Gates admitted attempting to convince Intel, the world's largest chipmaker, to stop writing its own software because of supposed clashes with Microsoft Windows operating software.

However, he denied he had threatened to stop supporting Intel's microprocessors, or that he had tried to convince Intel to abandon its software work altogether.

Mr Gates' videotaped evidence was shown in court at the start of the fourth week of the Microsoft monopoly trial.

The US government and 20 states accuse Mr Gates of abusing his market power to bully companies such as Intel to stop developing rival products. In particular, Microsoft is accused of trying to stop Intel's development of multimedia and internet software in 1995.

Microsoft insists the row between the two industry giants was a routine disagreement over technical issues, rather than an attempt to coerce Intel into shifting its strategy.

Mr Gates said Intel had been "wasting its money" by writing low quality software, and had repeatedly refused to tell Microsoft what software it was developing.

When asked if he had threatened to withdraw support for Intel's chips, Mr Gates said: "When we saw Intel doing low quality work that was creating incompatibilities with Windows, that was absolutely not Intel's goal, we suggested to Intel what they should develop. It became frustrating to us because there was a long period of time when they were doing work which, although it was supposed to be positive in the Windows environment, was actually negative. We did point out the irony of how we communicated with them on microprocessor issues but on the areas where they were trying to enhance Windows, the communication worked very poorly."

However, Mr Gates denied government suggestions that he had attempted to stop Intel from working with Netscape Communications, Microsoft's internet software rival.

Earlier, Microsoft attempted to undermine evidence from Apple Computer, the personal computer pioneer. Apple said it had been bullied by Microsoft into signing a $150m alliance with threats that Microsoft would cancel development of its Office suite of business software for Apple's computers.

HURRICANE MITCH CONTROLS IMPOSED

Hondurans act to avert aid corruption

By Richard Lapper and James Wilson in Tegucigalpa

The Honduran government has implemented strict controls on aid received in the aftermath of Hurricane Mitch to try to eliminate the risk of shipments falling prey to corruption.

Authorities are keen to show they can avoid a repeat of the diversion of some aid that occurred after Hurricane Fifi in 1974, the country's last big natural disaster. Help is continuing to pour into the region after last week's floods and mudslides that killed an estimated 10,000 people.

In Honduras all supplies being channelled through the government's disaster response authority are being checked by teams from the office of the comptroller-general, which audits state finances. "We have had a tendency not to manage these things well in the past," said Juan Pablo Rubio, an official at the Permanent Contingency Commission (Copeco), which organises disaster response.

"Many people don't like the arrangements, they don't like to be subject to financial control. But the state has to be able to do it."

Audit controls at Copeco, ordered by President Carlos Flores last week as the emergency relief effort got under way, have been welcomed by foreign donors. "They want to be as transparent as possible," said Marti Estell, a US embassy official.

The US Agency for International Development, which is giving $40m (£24m) of short-term aid for Central America, already has a programme of technical assistance for the Honduran financial authorities.

"People are on the alert. We believe that the dangers of corruption are less than in the past," said Marco Antonio Pinel, a member of an emergency team at the health ministry. "The relief effort is slow, but it is still a lot quicker than in previous years."

Foreign donors have also welcomed the government's willingness to allow aid to be distributed through non-official channels, such as voluntary organisations and the church.

Honduras has received more than $120m of aid in response to the devastation caused by Hurricane Mitch's passage through the country. More than 5,000 people died in floods and mudslides and half a million are homeless. Nicaragua, El Salvador and Guatemala are also reeling.

Teams of auditors in Honduras are on duty around the clock at Copeco's headquarters, to check the quantity of incoming aid. Staff are also verifying the arrival of aid at the shelters where the homeless are now living. "We are accounting for every bag and box that goes in and out of here," said Mr Rubio.

The emergency situation generated by Hurricane Mitch has overwhelmed Copeco, which has an annual budget of just $110,000 and 28 staff members, and forced the government to bolster its efforts. A new national executive commission, headed by Mr Flores, is supervising Copeco's work, while government ministers are co-ordinating efforts in each affected region.

Meanwhile, Central American presidents were yesterday meeting for the first time since the hurricane hit the region. They were expected to issue joint calls for special debt treatment, particularly for hard-hit Honduras and Nicaragua, as part of efforts to help them recover from the damage caused.

Michel Camdessus, managing director of the International Monetary Fund, was yesterday due to inform the Fund's board of the region's need for extra resources.

Paris takes lead in offering debt write-off

By Robert Graham in Paris and Stephen Fidler in Washington

France yesterday offered to write off all outstanding bilateral debt extended to Honduras and Nicaragua, the two poorest and worst affected of the Central American countries devastated by Hurricane Mitch.

The French government also proposed that the next Paris Club meeting of creditors of heavily indebted countries should consider a moratorium on debt service payments by Central American nations to ease the financial impact of the natural disaster. Paris also urged this meeting, due early next month, to consider a wide range of measures to ease the debt burden.

Paris is fully aware its move could create precedents elsewhere in the world for debt to be converted into aid in the wake of natural disasters.

Meanwhile, on a visit to Honduras, George Bush, the former US president, called for debt relief for the worst affected countries. But the official position of the US, which has offered $70m in assistance as well as military support, is still that targeted grants and loans are the best form of assistance.

The US has, however, indicated it will support debt relief at the Paris Club of creditor nations for countries with programmes from the International Monetary Fund if they still face balance of payments shortfalls because of Hurricane Mitch.

The US has long found it more difficult than some other creditor governments to write off debt because of its budgetary process. Most of the debt owed by the worst affected countries – Honduras and Nicaragua – is in any case owed to multilateral agencies such as the World Bank, which have complex debt relief procedures.

Although France's exposure to Honduras and Nicaragua is small, on the back of limited trade, French officials said it was important to make a big symbolic gesture of solidarity. The debt cancellation involves FFr392m ($71m) for Nicaragua and FFr166m for Honduras.

To underline the gesture, President Jacques Chirac has altered an official visit next week to Guatemala and Mexico to include a tour of the areas stricken by the hurricane. He will also hold a meeting with Central American leaders.

Paris has also been quick to respond with aid supplies, using facilities already located in French Caribbean overseas territories.

● **Andrew Parker adds:** Clare Short, UK international development secretary, said the government had contributed almost £500,000 towards the emergency relief effort in Central America. She added her department had also recently agreed a new development programme for the region, which involved the UK contributing £6m.

"The terrible contrast between the death toll in Central America and the much lower loss of life in the equally terrible floods in Bangladesh cruelly demonstrates the importance of disaster preparedness in countries that are vulnerable to natural disasters," she told MPs.

On the web today

● Dow Corning agrees breast implant plan ● Clinton internet adviser to quit ● Republican uncertainty on impeachment ● Setback for US health group ● Call from Pinochet lawyers ● Accountants tighten their grip on Hollywood ● British Columbia looks for economic kickstart ● Leftwing win sours PRI election triumphs

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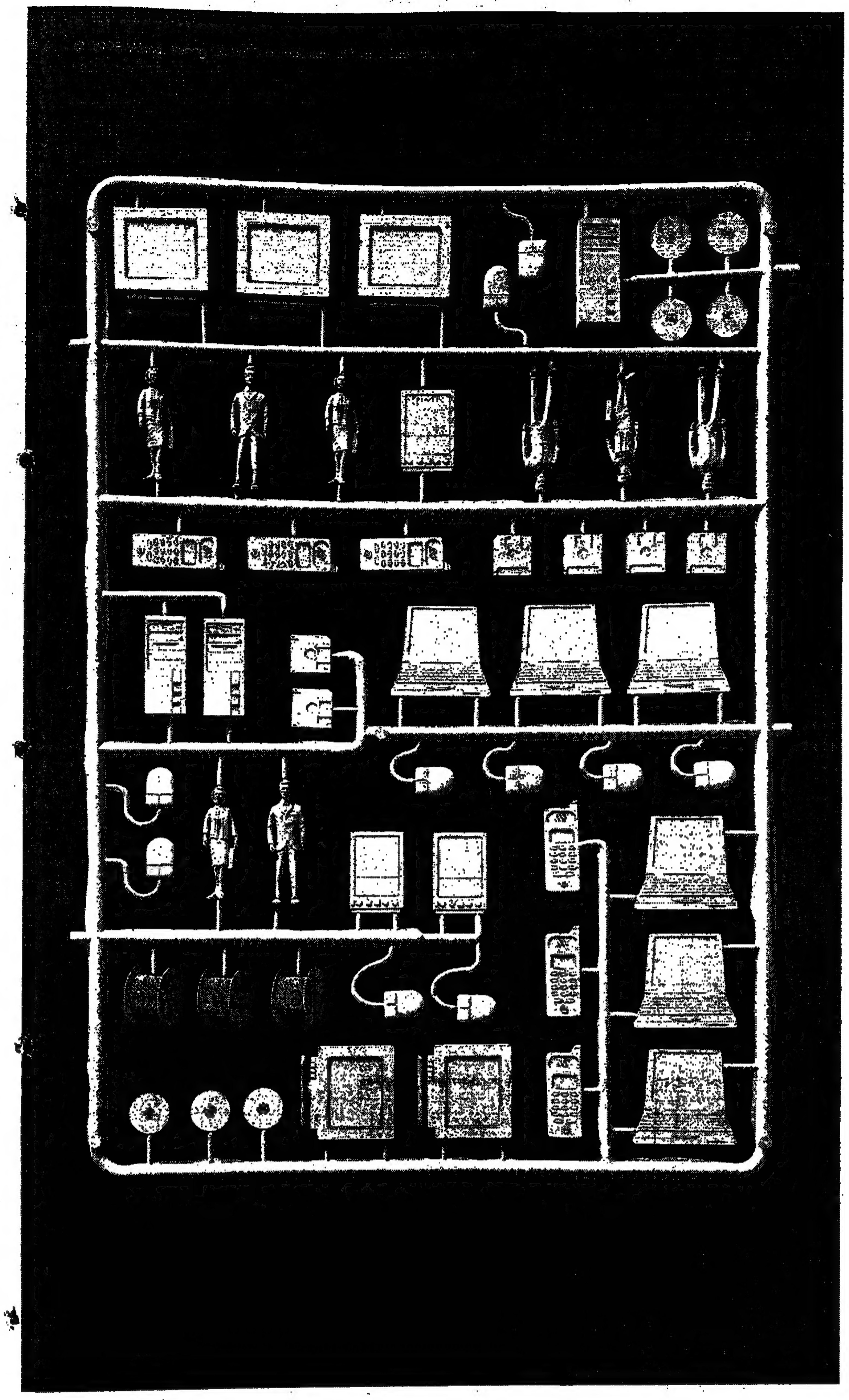

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SURVEY 'US MARKET HOLDING UP WELL'

London holds on to inward investment

By Kevin Brown, Industry Editor

London is maintaining its share of investment by companies outside the UK in spite of Asian economic turmoil and the looming slowdown in UK growth, London First Centre, the capital's inward investment agency, said yesterday.

Robert Gordon Clark, deputy chief executive of LFC, said the agency had completed negotiations on 61 projects involving 2,071 jobs by the end of October, compared with a target of 100 projects and 3,680 jobs for the 12 months to the end of March.

"The US market is holding up very well, and we have almost completed our year's target from Europe. The Asia Pacific region has slowed for us, but we have had a couple of good projects, and it is not completely dead," he said.

London's inward investment agency has a smaller role in attracting investment than other UK regions because the capital's relative wealth means it is unable to match the grants on offer from other regional agencies.

However, officials say projects handled by LFC are a good guide to the inward investment climate because its targets are set by the government's trade department after taking account of inter-regional factors.

LFC's successes this year include a European headquarters for Ericsson, the Swedish telecommunications giant, which will create 300 jobs over three years, and an expansion by Worldcom International of the US creating 100 jobs over three years.

Property specialists say that Air France is about to announce the location of a call centre in west London.

There have also been several inward investments in which LFC has not been involved, including the relocation of Anglo American, South Africa's biggest mining and industrial conglomerate.

LFC's continuing strong performance underlines evidence from other agencies that the UK's historically good record in attracting inward investment is being sustained. Nationally, the Invest in Britain Bureau said last month that projects for the whole of the UK were running at record levels.

Officials say there is no sign that the number of projects is likely to slow in the second half of the year. LFC said it expected to reach its target of dealing with 570 leads for year, and the IBB says it is dealing with more active cases than at the same time last year.

Trade promotion spending to fall

Northern Ireland's spending on the promotion of direct inward investment is set to be reduced for the first time under outline plans unveiled yesterday by Paul Murphy, a Northern Ireland minister in the UK government, **John Murray Brown writes.** Next year's allocation for Northern Ireland has been set at £9.5m ($16m) against £9bn in the year to April 1999. But the allocations outlined yesterday cover the two subsequent years when budget decisions will have been taken on by the new assembly. The plans envisage spending on industrial development, energy and trade promotion falling from £321m in 1999-2000 to £308m in 2000-2001 before rising in 2001-2002 to £315m.

Super-phone set to be star of TV, net and data

Media companies see intriguing prospects for their services in new ranges of mobile communications, **John Gapper** reports

Imagine a handheld electronic device that doubled as a mobile telephone, a television and an internet terminal. Users could buy and sell goods online, catch up with weather and traffic reports, and call their friends.

It seems a little far-fetched in a world where the mobile telephone and the television are separate objects employing separate technologies. But by 2002, the government believes that such devices will be everyday objects.

Not surprisingly, media companies as well as mobile phone operators are starting to become interested in a technology known as UMTS. Licences are to be auctioned next year, with the government hoping to raise up to £1.5bn ($2.5bn).

The clearest sign of growing interest has been the appointment of Don Cruickshank, the former telecommunications regulator, as a consultant to United. He is to lobby the government on the auction next year of UMTS licences.

The aspect of UMTS that has intrigued media groups is that the devices will be capable of carrying a great deal more than voice calls. They may be so versatile that the name "mobile phone" will hardly describe them. The main attraction is that operators of the four licences on offer will be able to send up to two megabits per second of data to UMTS devices. If all the capacity were employed, this would be enough to transmit a television channel.

In practice, operators are unlikely to use the capacity in this way because it would be wasteful. However, a UMTS device could easily combine a phone with high speed internet access and a range of interactive data services.

The high speed of UMTS transmission means that a photograph could be downloaded to a device in half a second compared to half a minute on a traditional fixed telephone link – or more than a minute on a current generation mobile phone.

As yet, no manufacturer has come up with definite plans for a UMTS device, since services are due to launch in 2002. However, one variation is likely to be a handheld device that incorporates a flat screen and a voice phone.

All this is potentially interesting to media companies that already operate broadcasting or interactive services. It means they could potentially find a new outlet for existing services. But it may not be easy for a media company to obtain one of the four licences on offer. Although the rules for the auction have yet to be laid down by the Radio Communications Agency, media companies already have their worries.

While existing mobile operators such as Vodaphone and Cellnet have networks of transmission masts and a high-speed data backbone in place already, new entrants might have to build from scratch.

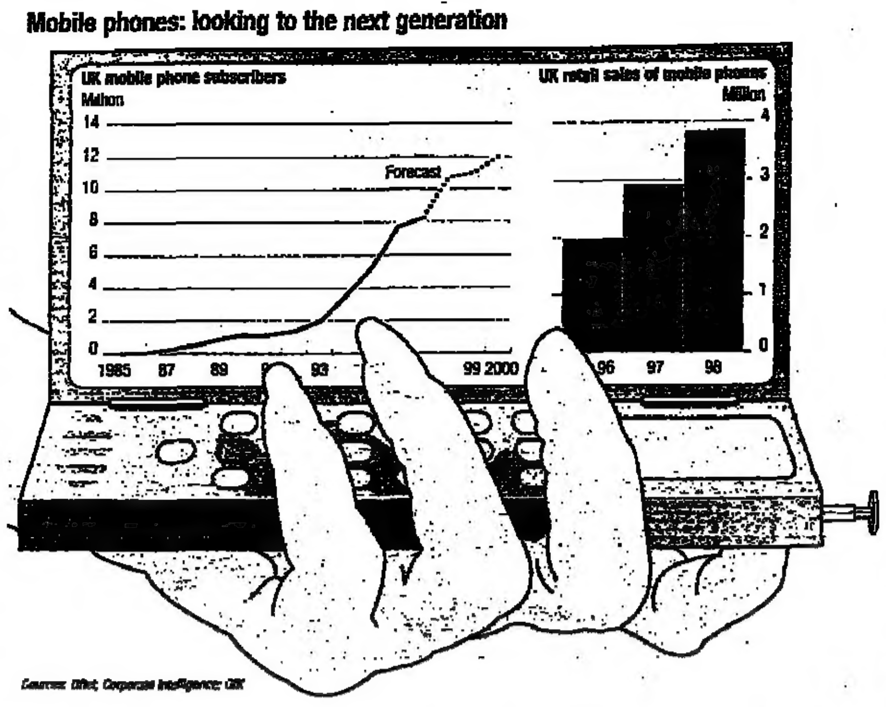
Chris Godsmark, an analyst for Henderson Crosthwaite, the investment bank, estimates it could cost £2.1bn to create a UMTS network from scratch, whereas an existing mobile phone company would have to invest only £1.5bn. That leaves a £600m gap for new entrants to bridge, unless the rules of the auction are altered. United has hired Mr Cruickshank to help make its case for all bidders to be placed on the same level.

It wants the government to force existing operators to open their networks for use by others at a fair price, allowing entrants to operate UMTS services without having to build their own physical infrastructure.

However, it is not clear that media companies would have to mount a bid themselves in order to be able to offer services. Several network operators would be happy to buy in services from others if they managed to get a licence. Some other media companies say they might be happy with this.

The most likely route is that media companies would form bidding consortia with network groups such as Energis or the cable companies that do not operate mobile services. These groups could then take on existing operators.

Mobile phones: looking to the next generation



Sources: Oftel; Corporate Intelligence; GfK

October was 'tough month', say retailers

By Richard Adams and Christopher Adams

Retailers reported a grimm month of falling demand and sales during October. The British Retail Consortium found that a wide range of retailers were forced to cut prices and continue special offers in an effort to entice consumers. But the attempt was barely successful, with the consortium reporting that retail spending was at a standstill.

"October was a tough month for retailers in virtually every sector," the consortium said. The overall value of sales was 0.6 per cent lower than in the same period in 1997 – only the second decline in annual sales for more than three years. Shops reported consumers being kept away by the extremely wet weather during the month.

"Customer confidence appears to have taken a battering in October," said Andrew Higginson of the BRC's economic affairs committee. "News of redundancies and general economic gloom have led to lots of belt-tightening among customers, with purchases largely limited to essentials, and little discretionary spending."

So far this year, the BRC's survey has shown weaker like-for-like increases in sales for every month compared with last year.

The poor sales figures came as Gordon Brown, chancellor of the exchequer, rejected criticism that his forecasts for economic growth next year were overly optimistic, saying the government would not break its "golden rule" on spending.

Appearing before the House of Commons Treasury committee, Mr Brown attacked a recent report by the National Institute of Economic and Social Research, which had suggested otherwise. The chancellor has revised down GDP growth for 1999 from about 2 per cent to 1-1.5 per cent and raised his estimates for growth in following years. "We are satisfied that our forecasts are based on the best information around ... We are well within our spending ceiling," he said. Meanwhile, official figures showed further falls in the price of finished goods produced by UK manufacturers. The Office for National Statistics reported that the price of goods leaving the factory gate rose at an annual rate of just 0.1 per cent in October.

Sinn Féin chief says IRA arms reports 'nonsense'

By John Murray Brown in Dublin

Gerry Adams, president of Sinn Féin, the political wing of the Irish Republican Army, yesterday dismissed reports the IRA was poised to decommission its arms.

Mr Adams, in London for a meeting with Tony Blair, the UK prime minister, said suggestions of an imminent IRA army council meeting were "nonsense" designed "to make our task more difficult". He accused pro-British unionists of "not doing what they are obliged to do under the agreement while republicans have been asked to do more than they are obliged to do".

Mr Adams says he has already gone as far as he can – pointing to the appointment of Martin McGuinness, Sinn Féin's chief negotiator, to liaise between the IRA and the international decommissioning body led by General John de Chastelain.

The governments of the UK and Republic of Ireland know the difficulties he could face persuading the militant heartlands – where there is less enthusiasm about the peace deal – to start handing over weapons. The peace agreement says decommissioning must take place within two years.

● Corporal Lee Clegg, a soldier in the British army's Paratroop Regiment, yesterday began his retrial in Northern Ireland for the murder in 1993 of Karen Reilly, 18, the rear passenger in a stolen car.

Corporal Clegg, 30, is accused of firing on the car with other members of an army patrol who had formed a roadblock in west Belfast, the Northern Ireland capital, to deter joyriders.

Cpl Clegg won the chance to clear his name in February when the Northern Ireland Appeal Court quashed his conviction and ordered a retrial.

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MEDIA INVESTIGATIONS BLAIR SUPPORT NEWSPAPER SELF-REGULATION DESPITE ATTACKS

Ministers scorn 'gay Mafia' jibes

By Robert Peston, Political Editor

Politicians yesterday deplored what one called "newspaper obsession with homosexuality and the proclivities of ministers." The comment came in the wake of the announcement on Saturday by Nick Brown, agriculture minister, that he was homosexual.

He was prompted by the attempt of a former partner to sell the alleged story of their relationship to a newspaper.

Tony Blair, the prime minister, yesterday said he would not abandon his support for self-regulation of the newspaper industry. Mr Blair's chief spokesman said the government continued to favour "a self-regulatory approach".

Nevertheless, Tony Banks, the independently minded sports minister, decried what he saw as a "current of homophobia."

He said the only justification for media investigation of politicians' private lives was to highlight hypocrisy.

There was also widespread disgust at the front-page editorial in yesterday's The Sun newspaper, which called on Tony Blair to force all his ministers to disclose their sexual leanings, because of the newspaper's concern that the UK is "run by a gay Mafia."

However, no government spokesman or minister was willing to make an "on the record" statement attacking The Sun, apparently fearing reprisals from the tabloid. The Sun, the top-selling daily newspaper in the UK, is owned by the UK arm of Rupert Murdoch's News Corporation.

The prime minister's spokesman turned down the opportunity to criticise it when asked his views. The newspaper has given valuable backing to Mr Blair's Labour government since the newspaper ended its long allegiance to the Conservative party 20 months ago.

Even Chris Smith, the culture secretary who has for years been open about his homosexuality, refused to make any comment on The Sun's allegation that a secretive gay cabal exercises undue influence in government, the law, Buckingham Palace and television.

However, a friend of Peter Mandelson, the trade secretary "outed" on BBC television a fortnight ago, said the notion that gays in the cabinet were "in cahoots" was "cloud cuckoo land stuff".

It was left to Alan Beith, the deputy leader of the opposition Liberal Democrat party, to say that The Sun was "on a very dangerous road.

"Stigmatising minorities in society and promoting ludicrous conspiracy theories about them is the basis of all the horrors of Hitler's Germany," he said

'Outing' of ministers triggers familiar trail of scandal

Despite media fascination with politicians' sex lives, public seem to care little whether their MPs are gay, says **George Parker**

One could hardly move in the bushes on London's Clapham Common last week – for journalists. "Some of them were going around with torches bashing the undergrowth, hoping to drive out a gay couple," according to one of the reporters sent to the scene of a curious late night encounter involving Ron Davies, who was then chief minister for Wales.

The British enjoy nothing better than a good sex scandal and they do not come much more salacious than the one involving Mr Davies, who later resigned as a minister though not as an MP for what he called "a serious lapse of judgment". Mr Davies nevertheless denies that his encounters on the moonlit common had anything to do with sex.

His resignation sparked a wave of interest in the sex lives of other cabinet ministers. Two of Mr Davies's cabinet colleagues, Peter Mandelson, chief trade minister, and Nick Brown, agriculture minister, were subsequently "outed" [declared to be homosexual] by the media.

The issue raised bigger questions about the continuing fascination with the sex lives of politicians. One answer is that the British public seem to care little whether their MPs are gay provided they act with a little discretion. Tony Blair's government had until this week largely avoided the kind of sex scandal that dogged the dying days of John Major's Conservative administration in 1996 and 1997.

But the Davies incident, coupled with the government's decision last week to get involved in the tricky area of family policy, left some Labour MPs fearing the media would embark on an investigation of their private lives.

Michael Brown, a former Conservative MP who was "outed" in 1994 by a newspaper, believes the conditions are right for another outpouring of moral outrage from the media. He sees parallels between the governing Labour party's plan to "strengthen marriage" with Mr Major's disastrous "back to basics" moral crusade in 1993.

"The media now have the ingredients they need," he said. "The government is taking action on the family and this week has shown that this administration is fallible – like any other – to scandal."

Mr Davies's activities enabled some newspapers to engage in homophobic innuendo but most reacted with far greater restraint to the "outing" last week of Mr Mandelson, who never discusses his private life in public. The trade minister reacted with good humour – even when a BBC executive drew further attention to the subject by banning any discussion of it by corporation staff.

But there was no scandal and the media's low-key response probably reflected the fact that the British people (like their American counterparts) are more tolerant than many would expect.

That was what the Hartlepool Mail, a newspaper in Mr Mandelson's working class northern constituency, discovered with a quick poll of 100 people: 94 of them said they did not care whether their MP was gay. Nick Brown, who also represents a district in northern England, won the support of many of his constituents, too.

One said he did not mind whether the MP was gay or straight, provided he did not support the rival Sunderland soccer team.

David Borrow, the Labour MP for South Ribble, "came out" of his own volition last year in advance of a House of Commons vote on the gay age of consent. He encountered little hostility from his constituents. "I've not noticed a problem, and the coverage in the newspapers locally was fine," he said.

Only one national newspaper, The Sun, Britain's best-selling daily, has used the "outings" of senior ministers to mount an assault on Britain's gay community, asking if the country was in the grip of a "gay mafia". Most broadsheet newspapers have covered the stories with the kind of reserve often shown by their counterparts elsewhere in Europe.

"In Spain or France, we don't write about that stuff – there is no tradition of writing about the private lives of public figures," said Inigo Gurruchaga, London editor of the Spanish paper El Correo. "But then people buy fewer papers in Spain."


THE Sun SPEAKS ITS MIND

TELL US THE TRUTH TONY

Are we being run by a gay Mafia?

MIDDLE OF SKELETONS IN CLOSET – See Pages 4 and 5

The Sun, the UK's top-selling daily newspaper, issued a strident appeal to Tony Blair, prime minister, on its front page yesterday. In an article (above), next to a photograph of Nick Brown, it declared: "Alarm bells are ringing . . . the public has a right to know how many homosexuals occupy positions of high power"

Employees are urged to inform on systems failings

By George Parker in London

Employees in the private and public sectors have been urged by the government to inform on bosses who fail to tackle the millennium computer bomb.

Margaret Beckett, the minister responsible for the issue, said she was concerned that some organisations were still not taking the problem seriously. The "bomb" refers to the expected failure of some computers to recognise dates after 1999. Ministers are particularly alarmed that few small businesses have taken advantage of the "bugbuster" programme, under which the government offers free computer training to staff.

In an interview with the FT, Mrs Beckett urged all employees to tackle their managers on what was being done to ensure that all computer systems were "millennium-compliant".

"If they receive a dusty answer, they might think it wise to tip someone off," she said. "For instance, they might write a letter anonymously to the board."

Mrs Beckett insisted that Britain's preparations for the millennium date change were the best in the world, although she accepted that there was not enough time to ensure that all systems were ready.

"The thing that is worrying about the bugbuster scheme is that it is a very, very low-cost option for companies," she said. "We are rather concerned about the take-up."

She brushed off warnings in a private letter, leaked last week, from Donald Dewar, chief minister for Scotland, that electricity supplies and telecommunications could crash on January 1 2000. However, Mrs Beckett admitted that "a contingency unit" had been set up within government.

NEWS DIGEST

INTERACTIVE TELEVISION

'Round the clock' name disclosed for new service

British Interactive Broadcasting, the television home shopping and banking service partly owned by British Sky Broadcasting and British Telecommunications, is renaming itself Open in the lead up to its launch next year.

BIB, which was recently cleared by the European Commission to offer interactive services on Sky Digital, will disclose its new brand today along with the names of companies that have signed provisional contracts to offer services. The companies are thought to include Great Universal Stores as well as Midland Bank, a minority shareholder in BIB through its parent company HSBC Holdings. Matsushita, the Japanese electronics group, is its fourth shareholder.

BIB, which was advised on its branding by Wolff Olins, the consultancy, is thought to have selected the name to indicate that its banking and shopping services will be available to television subscribers around the clock.

Open is expected to start running a promotional service on the Sky Digital 140-channel service by the end of this year. **John Gapper, London**

OFFSHORE GAS DEVELOPMENT

Minister gives go-ahead

John Battle, energy minister, has given the go-ahead for the £150m ($253.5m) development of the Neptune and Mercury gas fields off northern England.

BG, the gas exploration and supply arm of the former British Gas, owns 73 per cent stake of the Mercury field and 61 per cent of Neptune. The two fields which have 370bn cubic feet of gas reserves represent the first phase of the Easington Catchment Area development in the North Sea.

Amerada Hess owns 27 per cent of Mercury and 21 per cent of Neptune. BP owns 21 per cent of Neptune. The first gas production is due to start by the end of next year. **Andrew Taylor, London**

LONDON DECEPTION CHARGE

'Sheikh' jailed for nine months

A student with joint Sudanese and British nationality who pretended to be a wealthy sheikh was yesterday jailed for nine months after admitting six charges of obtaining services or property by deception.

A London court was told that Yasir Elkhazin, 23, had run up a £24,000 ($40,550) debt using credit card details of genuine individuals. The court heard that the largest loser was the Sheraton Park Tower Hotel, London, where Mr Elkhazin posed as Sheikh Omar El Mirghani. A £12,000 bill at the hotel included a £300 dinner ordered at 06h00.

A prosecutor said he was "the front man; the charmer". Mr Jonathan Rees, defending, said his client was educated in England and had gone on to universities in Sudan and Cairo without obtaining qualifications. He said his client was not a professional conman.

"It was more in the way of a daredevil scheme carried out by a number of young people – although beyond a schoolboy prank – and he lived high on the hog for three weeks."

DIGITAL BUSINESS

NINTH IN A 10-PART SERIES PUBLISHED ON TUESDAYS AND THURSDAYS

Spreading the message inside the organisation

IT has shaken up company structures just as much as external markets, says **Vanessa Houlder**

To enthusiasts, information technology is forging a productivity revolution. It has changed not just the nature of markets and competition. Inside companies, it has also changed behaviour. It has broken down the barriers of geography and time. It has flattened organisational structures, eliminating vast numbers of jobs, while making others more demanding and effective.

Not everyone subscribes to the view that IT is responsible for a "new paradigm" of inflation-free economic growth. "The productivity gains of the information Age are just a myth," according to Stephen Roach, chief economist at Morgan Stanley Dean Witter.

But there is no doubt that IT – coupled with commercial imperatives – has made a profound difference to the way companies do business. Proof, if it were needed, comes from the emergence of new business metaphors, such as "virtual company" or "networked organisation", says Michael Earl, professor of information management at London Business School.

For many companies, the starting point for these changes can be traced back to the best-selling book, *Re-engineering the Corporation*, in which Michael Hammer and James Champy argued that "automation simply provides more efficient ways of doing the wrong sorts of things". They argued that companies could achieve marked improvements in productivity by re-designing business processes at the same time as investing in IT.

A central theme in re-engineering was the need for companies to rethink their hierarchical systems of command-and-control. Employees could now gain access to all the information they needed through their PCs, eliminating middle managers as communication conduits. "Middle management, as we currently know it, will simply disappear," said Michael Hammer.

These changes did not only affect the head office. Companies tried to re-analyse the business processes throughout their organisations, in an effort to break down divisional "silos" that prevented one part of the organisation from understanding what other parts were doing.

Increasingly, they have tried to integrate the computer systems that control different parts of their operations. The widespread adoption of enterprise resource planning has allowed companies to put their various systems – from manufacturing and warehousing to invoicing and payroll – on a common basis.

Information technology has also made it easier for employees from different locations to work together. Using "groupware" such as Lotus Notes, people from different departments, countries and time zones were able to work together on electronically stored documents and contribute to online bulletin boards, all at times which suited them individually.

The company-wide networks known as intranets have spread information even more widely. There is no central control over many intranet-based collaboration tools.

At the same time as information has been making companies more integrated, it has also allowed them to loosen their physical structures. With the widespread use of home computers, laptops, modems and mobile telephones, employees do not need to be in the same place to work together. Many more workers now work from home or from the road. For some businesses, such as software design, workers can be located on the other side of the world.

In its extreme form, the use of new information and communication technologies has fostered the emergence of the "virtual office." Instead of an office, there is a web site; and instead of salaried employees, work is outsourced, either to other companies or to a team of freelances.

These changes have a price. Employees carry information and experience in their heads. With large-scale redundancies and a more mobile workforce, companies risk losing the intellectual capital that makes up their "corporate memory".

A report by KPMG, the consultancy, published this year, found that nearly half of the companies it surveyed had damaged a relationship with an important client or supplier because they had "failed to turn human intellectual capital into organisational intellectual capital".

But if IT has contributed to this problem, it may also contribute to the solution. If information can be stored in an electronic format, rather than in a filing cabinet or in someone's head, it becomes far easier to search for. By filtering, packaging and storing their collective knowledge, companies are able to reuse it.

This drive for better "knowledge management" has led to the introduction of a new corporate position. During the past few years, companies such as Xerox, Coca-Cola, Monsanto and the large management consultancies have appointed information supremos with titles such as "chief knowledge officer".

But when it comes to handling knowledge, IT faces of one its toughest challenges yet. Attempts to develop "expert systems" in the 1980s, which involve creating rules that reflect an expert's know-how, have failed for all but the narrowest fields of knowledge.

The problem often lies with tacit, rather than explicit knowledge. Companies find it relatively easy to store and retrieve reports. But it is far harder to deal with the less formal knowledge that governs the way people do their jobs.

One way companies can attempt to spread information knowledge around their organisation is by using electronic bulletin boards. Arthur Andersen, the accountancy firm, for example, has an online system that allows consultants worldwide to initiate and participate in discussions, as part of a much larger knowledge network.

Another approach is exemplified by the "virtual teamwork" project introduced by BP, the oil company, in 1995. It equipped its staff with a desktop video-conferencing system, document scanning, electronic mail and the internet. Its investment was swiftly repaid, not only by reduced travel bills, but also by better and quicker decision-making.

Some argue that the apparent productivity gains from computers are explained by the longer hours spent at the office

For individuals within companies, the introduction of new knowledge management technology can bring benefits. Some of BP's staff found it reduced the strain of constant travelling and made their working day more flexible. But it can also bring additional pressures. People often complain of being overloaded with information. Moreover, they feel threatened by being asked to share their personal expertise in a knowledge management system.

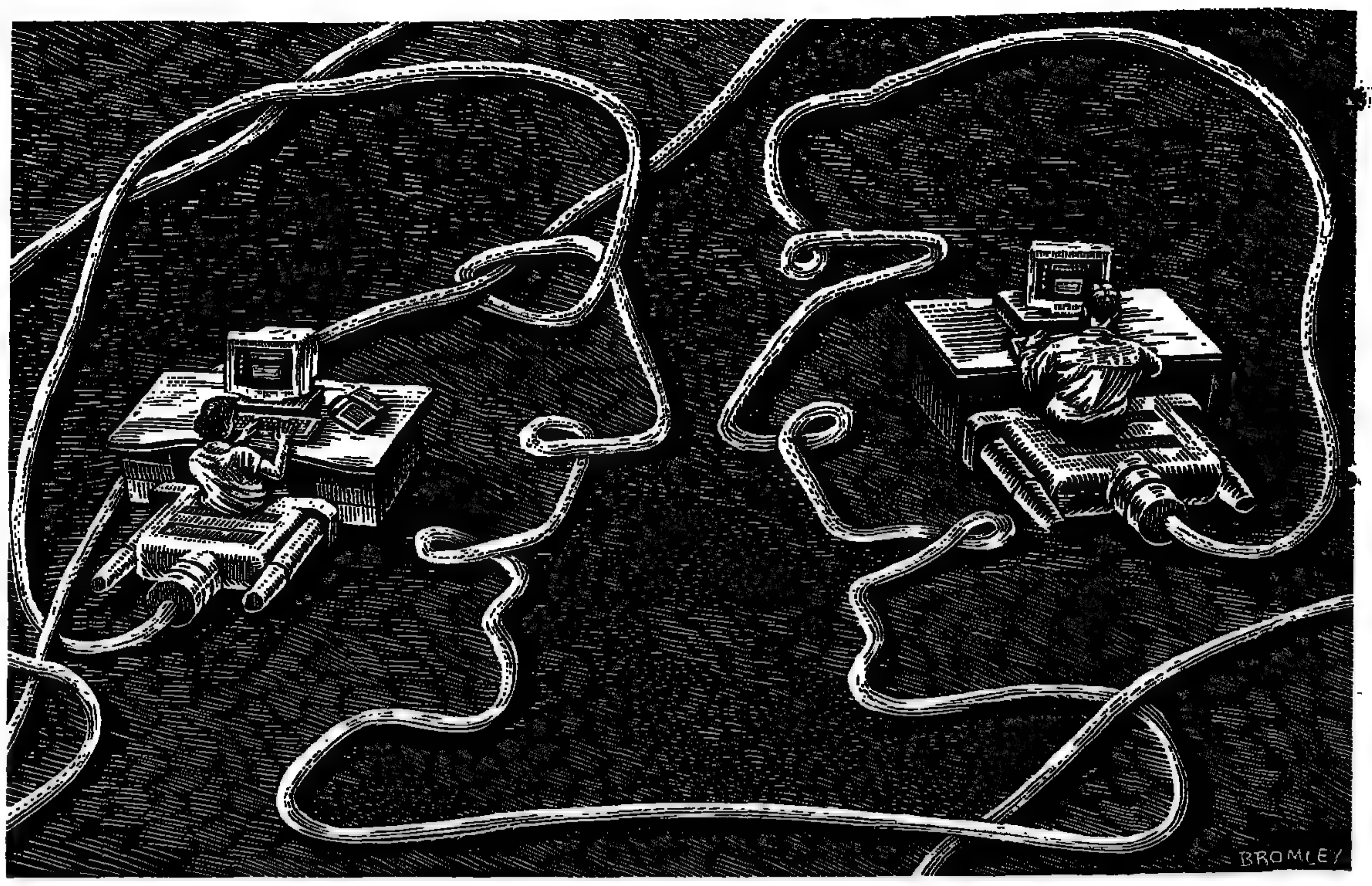
"Culture is perhaps the most difficult constraint that knowledge managers must deal with," concluded Thomas Davenport, David De Long and Michael Beers in research carried out last year for Ernst & Young. They found that knowledge management worked well in organisations where employees were intellectually curious and confident. But in companies where employees feared layoffs, people were reluctant to share information, particularly when it concerned mistakes or failures.

Another problem cropped up in "creative" organisations, such as advertising agencies, where the pressure to be original made employees reluctant to consider second-hand ideas.

The problems are not only cultural. The KPMG research found that lack of time was an even more important obstacle to sharing knowledge. "It could be that organisations have been through re-engineering and delayering and are so lean that they cannot give their employees the time necessary to develop and share knowledge," it said.

That conclusion may sound alarm bells. The organisational changes that have accompanied the introduction of new technology may have increased the pressure on employees, in a way that damages the organisation as a whole. It chimes with the conclusions of some economists who have argued that the apparent productivity gains from computers in the US are explained by the longer hours Americans are spending at work.

It is too soon to draw clear conclusions about the impact on organisations of the technological changes of the past decade. The pace of innovation has placed such heavy demands on users that they are not yet accustomed to working with it. Past technological revolutions have taken decades to take their full effects. The full impact of this one is only starting to be felt.



INTERVIEW
LAURENCE PRUSAK
IBM Consulting

Going digital can break down barriers in a business and improve communications but it is not the complete answer, **Victoria Griffith** discovers

In the early 1990s, some senior managers at Chemical Bank decided to put an end to the rumour mill that often created damaging uncertainty among its staff. They set up an intranet site that would chase down any rumour and get the true story. Anything was up for grabs – a threatened merger, possible closure of a division or the imminent departure of an executive at the US bank.

The first week, the site received three inquiries, which were duly answered. The second week, 200 questions were posted, and, with some difficulty, the managers addressed them all. The third week 1,000 inquiries were sent in, and the system crashed.

"There was no way they could deal with it," says Laurence Prusak, author and managing principal at IBM Consulting. "People at the bottom are desperate for information from people at the top, so if you open up the floodgates, you'd better be prepared to deal with the consequences."

One of the promises of the digital revolution is that it will increase the interaction between those at the top and those at the bottom, thus creating flatter, less hierarchical organisations.

Mr Prusak, who has been preaching the limits, as well as the possibilities of electronic connections for years, is sceptical. Digital communications, he says, are largely incapable of cutting through the cultural boundaries that created hierarchical structures in the first place.

"I have the e-mail address for the White House," Mr Prusak points out. "But that doesn't mean I influence foreign policy."

Even with the best of intentions, senior managers face time constraints that technology will not eliminate. A few years ago Bill Gates said he answered all his e-mail personally. If that is still true, it is probably all Mr Gates has time to do.

Many organisations still believe in the value of a powerful elite in the upper echelons of a corporation. Someone needs to make the decisions, they argue. Yet placing all the power at the top means putting senior managers under enormous pressure, while reducing those at the bottom to automata.

Thus, corporations have been increasingly striving to function more horizontally. "There may be some value in having decision-makers at the top," says Mr Prusak. "But not if they control all strategy and access to information. It's a question of degree."

To break through the time barrier, executives need to devolve decision-making to people at lower levels. Technology plays a limited role in this. Power-sharing can, of course, be accomplished with or without electronic communications, and no amount of digital wizardry will flatten a company if senior executives are not prepared to relax their control.

So have digital communications any use in a flattening business world? Yes, says Mr Prusak. Intranets, and the internet itself, can be used to access information, and information is tied to power, since it enables people to make better decisions. In the electronic age, it is easier to achieve transparency. Simply posting corporate information to all workers – regarding a dip in sales or market shifts – makes it easier for everyone to arrive at sensible solutions to problems.

No amount of digital wizardry will flatten a company if senior executives are not prepared to relax their control

The most effective information-sharing, according to Mr Prusak, probably occurs horizontally, rather than vertically. Workers can empower themselves by organising virtual communities. At the pharmaceutical company Johnson & Johnson, for instance, workers created a forum to share information about the best software and hardware solutions for the Year 2000 problem. Many of the ideas were adopted, and the company has saved a small fortune, says Mr Prusak.

Similarly, workers at Ford Motor Company who were enthusiastic about braking systems got together to form a group. The group, involving workers from several divisions, shares scientific advances, consumer preferences and anecdotal information. "Who knows if Ford will build better brakes because of it, but I wouldn't be surprised if it did," says Mr Prusak.

But such groups have limitations. The best communication still occurs face-to-face. "Ninety per cent of communications are not verbal," says Mr Prusak.

"It's difficult to read people's passion, build trust, understand the subtitles through the computer. That's why travel is up since the internet became popular. People eventually want to meet those with whom they've been communicating with digitally."

Electronic communications, says Mr Prusak, cannot of themselves flatten an organisation. An intranet will not increase people's capacity to absorb the information thrown at them, or allow chief executives to have a personal relationship with all their employees. But it may, says Mr Prusak, provide a forum for communication and so help to build a more horizontal organisation.


Prusak: preaching the limits, as well as the possibilities

It's good to talk – with staff by e-mail

British Telecommunications' intranet is a key part of structural changes affecting 125,000 employees, writes **Alan Cane**

Bill Cockburn, appointed head of British Telecommunications' UK operations a year ago, recalls with relish encountering, on his second day in office, one of BT's army of field staff who put up telephone poles.

He welcomed Mr Cockburn enthusiastically to the organisation, congratulating him on the sharp rise in BT's share price since his arrival.

It was, however, not Mr Cockburn's reputation that sent BT's shares soaring but WorldCom's eventually successful intervention that same day in BT's attempted merger with MCI of the US. The City, which had become increasingly unhappy about the merger's prospects, marked the share sharply higher on the news.

The story says much about BT's way of communicating with its staff these days. The BT employee had been following the progress of BT's share price on the company's intranet, a group-wide electronic communication system based on internet technology.

The system was in place before Mr Cockburn's arrival, and he has adopted it as the main vehicle through which he disseminates his plans for adapting BT's traditional structure to the new world of digital business.

"We have over 100,000 computer terminals in BT," he says, "and this intranet system connects them all up. This is now the means by which a lot of our internal business is done in the UK."

Everybody in the organisation has access to the system. Field staff connect to it through laptop computers or catch up with the news when they return to base.

Even after the loss of more than 100,000 jobs in the past decade, BT remains a big organisation. Its 125,000 staff are located not only in the UK but in every major European country, Asia and North America. A joint venture with AT&T of the US, announced in the summer, is in the early stages of development.

The logistics involved in running an organisation of this size are complex. The company buys goods and services worth £5bn a year and much of the business is carried out through electronic channels.

It operates one of the largest fleets of commercial vehicles in Europe while its building services department deals with 7,000 properties in the UK alone.

'I get vast numbers of e-mails from people at all levels expressing very strong views'

Given the importance of the electronic supply chain, it is no surprise that BT was one of the first UK companies to warn it would cease to do business with suppliers who could not show they were dealing with the so-called millennium bomb which threatens to disrupt computer and telecoms systems after 2000.

But communicating both the corporate vision and day-to-day operational matters is a large and costly task. Mr Cockburn, in particular, is implementing the biggest changes in BT's organisation for almost a decade. He has abandoned the old demarcation lines and introduced the concept of "arenas" around marketing, products and services, and the network. This is where the communications potential of the intranet comes into its own.

All BT's senior managers, including Sir Iain Vallance, the chairman, Sir Peter Bonfield, chief executive, and Mr Cockburn, have their own web sites and use them for disseminating information and collecting views from staff.

"My web site has gone from zero to 200,000 hits a month," says Mr Cockburn. When I travel round the business, we run a diary of my daily appointments on the site and we take a digital camera to record noteworthy events."

The group also uses other media to get its message across. There is a newspaper and a private television channel, but Mr Cockburn argues for the effectiveness of the intranet. "People flock to the sites because they are interested," he says.

"There is an insatiable appetite for information about the company. Last year we saved over £140m by using the intranet – in other words, to have used paper means of communication would have cost £140m more.

"I get vast numbers of e-mails from people at all levels in the company. These people express very strong views about what we are doing and they give me their own ideas.

"And they do not do it anonymously. I think it is good that people should feel they have the confidence to express their point of view, bypassing all their lines of command by sending their thoughts straight to my e-mail address."

Mr Cockburn gives as an illustration the introduction of profit-related pay earlier this year, a measure he strongly supported. To fulfil the government's rules, however, a certain proportion of the staff had to be in agreement.

"We were selling the benefits of this to our people. During that period I had a huge number of messages. I was using my web site to reinforce what our human resources department was telling the staff."

Robert Salvoni, Mr Cockburn's personal assistant, who works with the press office to create Mr Cockburn's web site says: "It has become our lifeline. I never go anywhere these days without the digital camera."

THE ARTS

Depressed by the cutting edge concept

Yet again the Turner Prize short-list exhibition spurns painting in favour of conceptualism, writes **William Packer**

What is to be done with the Turner Prize? Here it is, come round again for the 14th time, and with it the same old doubts and reservations – which is a pity. For I have nothing against the idea of this or any prize in principle, if only for a bit of fun and some money directly in an artist's pocket. And while the Turner, at £20,000, no longer has the largest purse on offer, it is still not to be sniffed at: with all the publicity that its sponsors, Channel 4, can orchestrate, and the not inconsiderable prestige of the Tate Gallery itself behind it, it remains beyond doubt the most valuable in kind.

So what is the problem? Here we have a competition that at once consciously sets itself by the highest general standard and yet imposes limitations, both of formal qualification and, latterly, by an apparent interest in only certain kinds of work. Turner was possibly the greatest artist this country has produced, and remained as radical and adventurous in his old age as ever he had been in his precocious youth. The prize set up in his name, for "an outstanding exhibition or other presentation of work in the 12 months preceding May 31, 1998" is limited to a British artist, which is fair enough, but only to one who is under 50 years of age. I have consistently argued against this limitation, partly on the grounds that the interests of the young should not always be counted as paramount, and more particularly that the greater opportunity of measuring themselves against – and possibly defeating – all comers, of whatever age, is thus denied them.

And Turner was also a painter. The second, and last, painter to win his prize was Howard Hodgkin in 1985. A painter has always been nominated, admittedly, but latterly always of a minimalist or process kind, and the short-list and exhibition has become increasingly the province of the conceptualist, whether as installation-builder or film-maker. The art-speak is no longer of the painting or the sculpture, but of the project, the process, the art-work. The idea is all; the work itself merely the proposal or demonstration. And the inference is that, for artists under 50, all real creative interest and current achievement now resides only within this narrow sector of activity. If true, this would be deeply depressing; but it isn't true: the art schools are full of painters, and their sculpture studios as busy as ever. But curators and selectors seem only to look for what they have persuaded themselves is now relevant, "the cutting edge". All they discover is the new Academy.

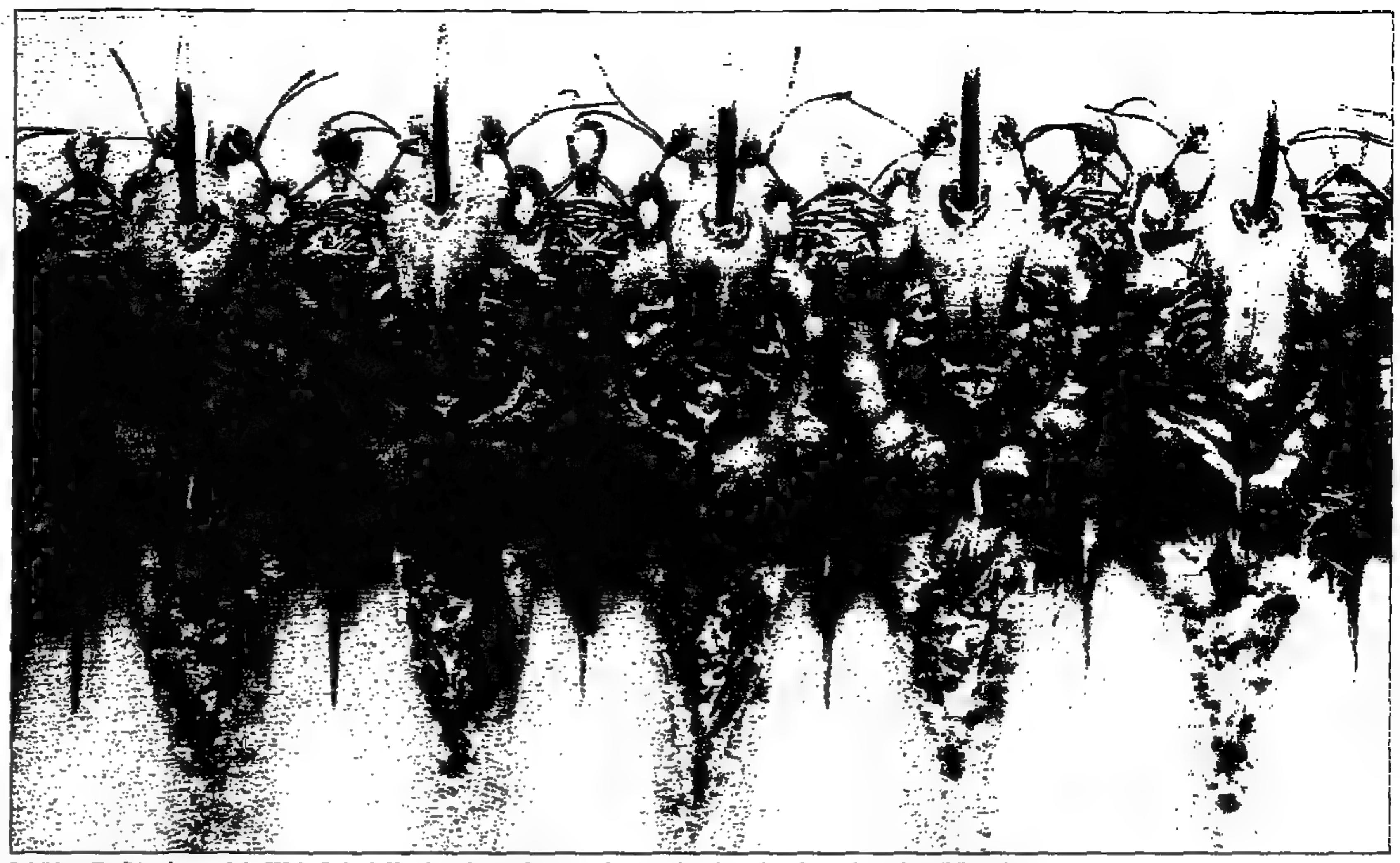
So here is the mixture as before. Tacita Dean is commended for demonstrating "her versatility in the use of a wide range of media, including drawing and film, to create imaginative narratives of her chosen themes". If only she could draw, and her films and narratives were in the least bit compelling. Here film of women in a women's-only swimming-pool in Hungary is anything but. It conveys, so the catalogue tells us, "a sense of the slower pace of life in Eastern Europe, and suggests that time is an essential part of the healing process." Well I never. As for her lighthouse beacon turning endlessly in the night, entitled "Disappearance at Sea", it is rendered merely pretentious by her arbitrary attempt to relate it to an old story of a lone yachtsman lost at sea, her lighthouse "the last human outpost between land and ocean ... (hinting) at the other-worldliness of the sea." She is also showing "The Roaring Forties", a work that consists of seven large blackboards each worked in a single day, and treated by what the catalogue takes to be "her virtuoso handling of the chalk", and what I take as a perfunctory scrawl. To look at these crude images of the sea and sailors, labelled "Aerial View" and "Out of Frame" to summon up a cinematic context, it is hard to believe she knows what drawing, as drawing, really is. If she does, she doesn't care. To her, her mark is her mark and that is enough.

Sam Taylor-Wood is commended for "her acutely perceptive explorations of human relationships through photography and video". I don't know that she is any more "acutely perceptive" than were such fine Victorian narrative painters as Orchardson or Frith, but she is certainly accomplished in what she does. The only problem is that for me her film here, of two lovers in the centre of a crowded restaurant engrossed in the tearful agony of breaking up, is just that, a film, and subject to the established critical apparatus of the cinema rather than fine art. As for her panoramic photographs, panoramic photographs are, well, panoramic photographs.

Chris Ofili is cited for "the inventiveness, exuberance, humour and technical richness of his painting, with its breadth of cultural reference". Since I reviewed his Serpentine exhibition at some length two weeks ago, all I shall say now is that I still find his inventiveness formulaic, his technical richness mechanical, his humour and exuberance somewhat forced, and his cultural reference merely superficial.

Which leaves Cathy de Monchaux, here "for the growing complexity and richness of her sculpture and her sensuous use of materials". Her work, too, is formulaic to a degree, with her use of ready-made elements and her tricks of bracketing and clamping. But while her imagery may be disturbing, fraught with sexual phobia and hints of violence, it is at least beautifully made and fully realised. Her captioning may be tiresomely pretentious, but at least she is an authentic sculptor. If I were a judge, I would vote for her.

The 1998 Turner Prize Exhibition: The Tate Gallery, London SW1, until January 10; sponsored by Channel 4.



Detail from 'Don't touch my waist', 1998, by Cathy de Monchaux: her captioning may be pretentious, but at least her works are beautifully made

Problem play given no sense of direction

THEATRE

ALASTAIR MACAULAY

Troilus and Cressida
The Pit, Barbican, London EC2

The Royal Shakespeare Company's new production of *Troilus and Cressida* is at times almost wonderful, then faintly irritating. It is contrived and yet it is very immediate; it is fresh and yet never quite absorbing.

Directed by Michael Boyd and designed by Tom Piper, the play is set in a part of the 20th century just before our own, in some more or less middle-class milieu somewhere in the eastern Mediterranean. The period works well, and creates an artless naturalism about the characters while giving them just enough historical distance. And yet, at points, Boyd presses the modernity too far: there is too much nonsense about pistols, especially when Achilles first threatens Hector. The class setting adds intimacy – Priam's family eat dinner around the kitchen table – but reduces the Greek kings to a bunch of local politicians rowing about – what? Then there is an uneasy tension between the Mediterranean locale and the actors employing accents from all over the British Isles. These prove distracting: why do most Trojans use Irish accents but not Troilus? Why is Thersites the only Greek with an Irish accent?

The actors do a great deal to bring conviction and coherence to all this. Jayne Ashbourne presents the self-contradictions of Cressida with an extremely appealing spontaneity; William Houston is an artless Troilus of heartcatching openness; Roy Hanlon brings an unusual, telling melancholy to the annoying machinations of Pandarus . . . Shakespeare's *Troilus* offers an exceptional array of vivid, challenging roles, every one of which is taken here with intelligence. The difficult role of Cassandra – played by Catherine Walker – becomes completely persuasive: the quiet sister in mourning whom everyone is kind to, nursing a child that turns out to be merely a shawl, uttering tragic prophecies that no one can pay credence to.

Yet Boyd needs to jazz up our take on the play with wiseguy glosses of his own. Casting a young woman – Elaine Pyke – as Patroclus doesn't quite work. The point, presumably, is to make him Achilles's effeminate catamite, and to create a new tension around Patroclus's uneasy situation amid the other Greeks, who are already angry with Achilles for not fighting; but when we discover that Achilles has been also involved with a real woman, we are tripped up by one gender issue too many.

And why change the whole Greek myth by having Patroclus killed, not by the Trojan Hector, but by the Greeks? Why have Helen of Troy pose as a statue of the Virgin Mary, with kneeling worshippers chanting at her feet? These ideas are merely clutter; we cannot attend properly to what the characters are saying while Boyd keeps throwing this stuff before us.

There are a few other problems. The text has been oddly cut – so that, although the programme precis tells us that Pandarus ends the play, the action tells us that Troilus does. The acting style is naturalistic, but, when Cressida arrives in the Greek camp, she gets pulled into a dance that Liz Ranken has choreographed with exaggeratedly expressionistic artifice. The big fight between Hector and Ajax has been arranged with so much violence that nobody would believe that they could carry on at the same rhythm.

Troilus has often been called a problem play, but the RSC has done wonders in some previous productions to disprove this judgment. The odd thing about Boyd's production is that he too makes the play seem far from problematic. He directs as if he knew the truth: Shakespeare is no problem, but Boyd is.

Alastair Muir

Appealing spontaneity: William Houston and Jayne Ashbourne

THE ORIS LONDON JAZZ FESTIVAL

Variations on guitar, drums and bossa nova

It is 40 years since Brazil exported the bossa nova, the "new bump", to the cool jazz clubs of the US, and inviting the band that created this subtle son of samba to the opening week end of the Oris London Jazz Festival was inspired booking.

The creator of the sound, and the composer of such insidious melodies as "The girl from Ipanema" and "One note samba", Tom Jobim, died in 1994; but the Jobim/ Morelenbaum Quintet continues, and with some justification. It includes both Tom's son Paulo on guitar and his grandson Daniel on piano.

At first, in a reverential Royal Festival Hall, the mood was on the chilly side of cool: the band seemed to be going through its predictable paces. But gradually, as singer Paula Morelenbaum settled into her rhythm, the atmosphere warmed considerably and the contribution of this introspective, subtle beat to jazz was apparent.

This is basically small club music: it conveys more of Portuguese sobriety than African emotion. But it is so much the life blood of the Jobim/ Morelenbaum Quintet that it soon reached out and absorbed the audience, sending it out for the interval happily mellow.

Top of the bill was Lee Ritenour, "Captain Fingers", the professionals' favourite guitarist and increasingly the public's, judging by the jazz chart success of his latest albums. Ritenour comes across like a typical guitar virtuoso – as short on charisma as he is long on solos. You can imagine the teenage years spent practising in the bedroom. No wonder he became the most sought after session man in LA.

There is no doubting Ritenour's skills – he can make the guitar sound like a violin or even a sax

There is no doubting his skills – he can make the guitar sound like a violin, or even a sax – although there was no need, given the quality sax playing of Eric Marienchal in the quintet. The problem with jazz guitar is that it can so quickly degenerate into clever doodling: Ritenour is often quite happy to kiss melody good bye as he improvises away, seeking guitarists' nirvana.

He is equally generous with the genius of his bandsmen, encouraging them to indulge in solos and mock instrumental duels, reminiscent of the bad old days of arena rock. Rarely has a drummer shown off to such length at the Festival Hall as Sonny Emory, and, however technically brilliant, it is emotionally deadening. It was a relief to get back to the original tune, even if it was the theme from the film *Alfie*.

But anything goes in jazz these days, as the Oris Festival, which lasts all this week, proves. Somewhere amid the esoteric free forming there is blood, sweat and tears.

Antony Thorncroft

INTERNATIONAL

Arts Guide

ABERDEEN

OPERA
His Majesty's Theatre
Tel: 44-1224-641 122
● The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes: Nov 13

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
● The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 10, 12

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
● Van Gogh in the Rijksmuseum: during the period of the Van Gogh Museum's closure for renovation and building work, a selection of its finest holdings will be exhibited in the Rijksmuseum's South Wing; to Mar 7

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 13

BIRMINGHAM

Exhibitions
Birmingham Museums and Art Gallery
Tel: 44-121-235 2834
● Sir Edward Burne-Jones: 200 works, including tapestries and jewellery as well as paintings. A second generation Pre-Raphaelite, Burne-Jones had a lifelong working relationship with William Morris as a principal designer; to Jan 17

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 12

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
● Art and Archaeology of Ancient West Mexico: more than 200 works, including terracotta figures found in tombs, and findings of recent excavations. Many of these objects have never before been publicly exhibited; to Dec 6

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
● Joan Miró: big retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
● Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garforth; Nov 12

LONDON

DANCE
Sadler's Wells
Tel: 44-171-863 8000
● Rambert Dance Company: Cruel Garden, by Lindsay Kemp and Christopher Bruce. Evocation of the life and work of Federico García Lorca, set to music by Carlos Miranda, performed by London Musici; Nov 10, 11, 12, 13

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Boris Godunov: by Mussorgsky. Conducted by Paul Daniel in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson sings the title role; Nov 11
● Mary Stuart: by Donizetti. Conducted by Noel Davies in a new staging by Gale Edwards, with costumes by Jasper Conran. Ann Murray sings the title role, with Susan Parry as Elizabeth; Nov 10

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
● Charlotte Salomon: born in Berlin in 1917, Charlotte Salomon died in Auschwitz in 1943, after living in hiding in the south of France for three years, during which time she produced a series of 769 gouaches called Life? Or Theatre?; to Jan 17

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
● Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 12

EXHIBITIONS
Haus der Kunst
Tel: 49-89-211270
● Lyonel Feininger (1871-1956): From Gelmeroda to Manhattan. First comprehensive retrospective of the German-American painter, who was forced to leave Germany during the 1930s and subsequently worked in New York; to Jan 24

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Le Nozze di Figaro: by Mozart. New staging by Jonathan Miller, with designs by Peter Davison. With Renée Fleming, Cecilia Bartoli and Bryn Terfel, conducted by James Levine; Nov 11

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Degas Photographs: bringing together 35-40 photographs, most of which were made in the 1890s. Mainly figure studies, self-portraits and portraits of the artist's circle; to Jan 3
● From Van Eyck to Brueghel: Early Netherlandish Paintings. Almost 100 paintings from the collection, exhibited together for the first time; to Jan 3
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
● Jackson Pollock: first US retrospective of the Abstract Expressionist since 1967. Including more than 100 paintings and 50 works on paper, the show promises to be a highlight of the New York art calendar; to Feb 2

OTTAWA

EXHIBITIONS
National Gallery of Canada
Tel: 1-613-990 1985
● Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings; to Jan 3

PARIS

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
● Lorenzo Lotto: Rediscovered Master of the Renaissance. 50 paintings, many of them on loan from churches and museums in Italy; to Jan 11

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● In Visible Light: Photography and Classification in Art, Science and the Everyday. Traces the evolution of photography from the late 19th century to works by artists including Andy Warhol and Cindy Sherman; to Nov 15

WASHINGTON

EXHIBITIONS
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
● Bernini's Rome: Italian Baroque Terracottas from the State Hermitage Museum, St Petersburg. 35 rarely exhibited sculptures, bought by Tsar Paul I from Filippo Farsetti. Among the 14 artists represented are Bernini and Algardi; to Jan 18
Phillips Collection
Tel: 1-202-387 2151
● Impressionists in Winter: Effets de Neige. Inspired by Sisley's Snow at Louveciennes, this display includes 62 works from 44 collections. Artists include Monet, Pissarro, Caillebotte, Gauguin and Renoir; to Jan 3

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

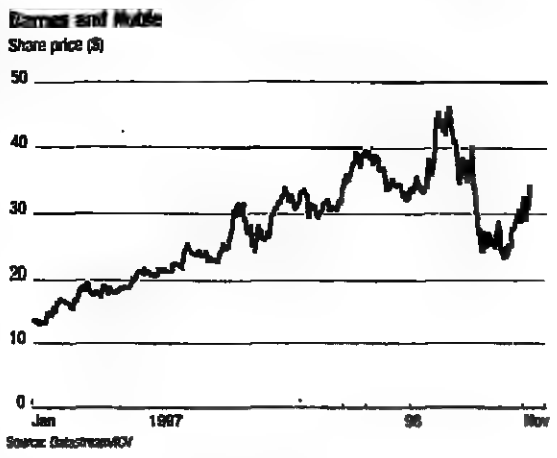
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Brought to book

The internet retailing war is turning into struggle over distribution, say **Richard Waters** and **John Labate**



America's biggest bookseller has failed to beat Amazon.com, an upstart internet rival, at its own game. So it has done what any self-respecting 800lb gorilla would do: change the rules.

As long as the trustbusters don't cry foul, Barnes & Noble's purchase of America's biggest book distributor will be be one of the most significant moments in a long-running corporate battle that has at its heart the question of how fast the internet can transform an established industry.

In its brief history, the battle between Barnes & Noble and Amazon.com has already provided enough material to launch a thousand business school case studies.

The former brought the economics of the category killer to the book industry, creating vast stores with a broad inventory and low prices. The latter brought the economics of the internet, creating a virtual store with a theoretically infinite inventory and even lower prices.

Barnes & Noble pioneered the bookstore-as-meeting-place, drawing people with its coffee bars, reading desks and comfortable chairs. Amazon.com tapped into the new cyber-community, letting its customers post their own reviews on its web site for others to read.

Barnes & Noble is far ahead: it has $3bn of revenues and 14 per cent of the US book market. But Amazon.com has become a contender faster even than its own ardent supporters had expected. It is generating sales at an annualised rate of $600m and growing at around 30 per cent every three months.

Equally important is the fact that Barnes & Noble has failed to beat Amazon.com on its own turf. It opened its own internet bookstore 18 months ago – nearly two years after its rival. Despite pouring money into Barnes&noble.com, its online sales are only a tenth of Amazon's.

Wall Street has made up its mind where the future lies. It has slapped a market value of $6bn on Amazon.com, nearly three times the value of Barnes & Noble, whose total revenues are five times larger.

There is more to a bookstore than the shop window, however – even on the internet. The latest book to catch the attention of the American reading public – Tom Wolfe's *A Man in Full* – costs $28.95 at the local bookstore. It costs 30 per cent less at a megastore, and 40 per cent less on the internet.

The convenience and low cost of shopping on the internet are undermined, however, by expensive delivery costs. To have the book delivered tomorrow requires a $10.95 fee. A lower fee brings a delay – not something the impatient American consumer is used to.

"Customers want things overnight," says Gary Reiner, the chief information officer at General Electric. And though GE is hardly likely to start shipping its refrigerators by UPS, it (and many other companies) is watching the Battle of the Booksellers closely for clues about how retailing may change.

In particular, they are looking at Barnes & Noble's latest gambit. At the end of last week it agreed to spend $600m on the country's biggest book distributor, Ingram Books. This company's 11 warehouses create a ready-made platform for the flagging Barnes&noble.com. Four out of five customers are within easy reach of Ingram's warehouses, giving Barnes & Noble a new edge in the speed and cost with which it can reach readers, according to Leonard Riggio, the company's chairman. In other words, internet retailers can overcome the high cost of distribution if they control their own direct distribution.

This has not gone down well with other booksellers, and is likely to arouse the attention of the regulators. Corner bookstores around the country rely on Ingram and are horrified at the thought of their biggest supplier being under the control of their biggest rival. Ingram also supplied 58 per cent of the books sold by Amazon.com last year.

"This is going to be scrutinised very carefully by the antitrust division of the federal government and by state attorneys-general because of the local nature of bookselling," said James Fousekis, a partner at Steinhart & Falconer, a San Francisco law firm.

If the internet retailing war is turning into a struggle over distribution, then Amazon.com has already shown itself to be a tough competitor.

The US retailer with the most respected distribution system – and the one to have used information technology most effectively to get control of its inventory – is Wal-Mart. So it may be no coincidence that Amazon.com recently hired four technology specialists from Wal-Mart, including its new chief information officer.

That's certainly the way Wal-Mart saw it: the giant of the US retailing industry has launched a legal action against the internet upstart, accusing it of trying to steal the intellectual property that lies behind its owninventory management system.

Barnes & Noble's sally into distribution, meanwhile, is only one piece of the jigsaw. There is a broader process of consolidation and vertical integration underway in the book business, one that is being hastened by online commerce.

Mr Riggio has already come up with other ways of hitting back against Amazon.com. A month ago, he agreed to sell half of his own internet business to Bertelsmann, the German media group. That was followed last week by news that the European head of America Online – another company in which Bertlesmann is a big investor – was to run Barnes&noble.com (though Amazon.com beat its bigger rival to the punch by launching a web site in German last month.)

Bertelsmann has ruffled feathers in the US book business before. Already a big publisher there, it recently bought Random House, touching off a wave of warnings from authors about excessive power.

Through its ties to Barnes & Noble and, now, Ingram Books, Bertelsmann is set to become a key part of a vertically integrated industry.

In theory, a book published by Random House could get pride of place on a revamped Barnes&Noble web site: it could also be fed into readers' hands more quickly and cheaply through an in-house distribution system. But before that future arrives, the antitrust experts at the Federal Trade Commission are likely to take a long, hard look.

LETTERS TO THE EDITOR

No evidence that Anglo-Saxon board structure is better set to avoid failure

From Mr Christoph Walther.

Sir, In your leader "After Siemens" (November 6) you mention that Daimler-Benz "is bringing a German two-tier board structure to its merger with Chrysler". May I add that the company DaimlerChrysler is bringing together parts from the Anglo-Saxon and German corporate governance by establishing a shareholders' committee that includes shareholder representatives, and outside directors as well as the two chairmen for DaimlerChrysler.

Your comment could also be interpreted as implying that the Anglo-Saxon system of corporate governance is superior to others. To the best of our knowledge, there is no evidence that the Anglo-Saxon system is better set to avoid mismanagement or corporate failure.

The experience Daimler-Benz has collected over the past few years is that it takes a whole new mindset and philosophical approach in order to achieve a corporate concept of value-based management, ranging from a comprehensive programme of performance-related yardsticks, internal and external transparency, a compensation system from top to bottom that rewards value creation, the attitude to accept the financial markets' expectations, and a strong leadership reflecting all these values.

Christoph Walther,
senior vice-president,
corporate communications,
DaimlerBenz,
Stuttgart,
Germany

Here's to my cheap new car

From Mr A.E.J. Killick.

Sir, I fully agree with Sir Alex Trotman, chairman of Ford ("Europe must change its ways, warns Ford chief", November 4), that Europe must cut the costs of doing business. I look forward to my next new Ford being cheaper . . .

A.E.J. Killick,
managing director,
Cyclop International,
PO Box 341
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Surrey CR9 5QN, UK

Indian banks not lending enough

From Mr Tosh Sheshabalaya.

Sir, It is wrong to suggest India is struggling to cope with "excessive lending" by banks ("Investment distrust", October 29). Indian industry has long complained that banks are not lending enough, while bankers say tighter capital adequacy norms, mandatory credit ratings and controls on non-performing assets make this difficult.

Indian bankers have yet another reason to explain sluggish lending. The Indian Banks Association has accused the federal Vigilance Commission of creating a "fear psychosis" by routinely questioning bankers' motives for commercial decisions. In September, India's finance minister agreed with the banks that police inspectors knew little about project finance and said the "witch-hunting would be stopped".

Tosh Sheshabalaya,
managing partner,
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Belgium

'Over-pessimism' will not help Japan

From Mr Ken Takasu.

Sir, I would like to thank the FT for its excellent and unparalleled coverage of developments in the Japanese financial system. However, Beate Reszat (Letters, November 3), in assessing my statement that when a Japanese bank's capital ratio falls below 4 per cent it is forced to reduce risky assets as "overly optimistic", is really missing the point.

Dr Reszat argues that Japan's regulatory environment is so lax that the Ministry of Finance itself acknowledged in a 1996 report that some banks can be recognised as having a capital ratio of "less than zero per cent".

I do not argue that when a bank's capital ratio falls below 4 per cent that the bank will immediately reduce risky assets. Instead, in the context of Paul Krugman's argument for creating "managed inflation", I argue that falling equity prices, whether they are marked to market, book, or never marked at all, will cause banks to become less willing to lend in order to reserve capital.

This scenario is playing out in practice. It is clear that Japan's regulatory environment is in part at fault for the predicament that Japan is presently in. Being simply "overly pessimistic" will never create the confidence that is so needed.

Ken Takasu,
117 East 57th St 40A,
New York, NY 10022, US

Forerunner to the FT's second section

From Mr Michael Duggan.

Sir, The claim in The Global FT (November 6) that in 1979 your newspaper was the first UK daily to be printed in two sections overlooks a notable precedent. Indeed, as the official *Centenary History of the FT* records, the London Times Business News – "a fatally flawed project" – was published for three or four years from its launch on UK Budget day, April 11 1967.

The TBN supplement was highly visible – not least, I recall, strewn on the seats and floors of London underground trains, in detached, discarded and unopened form.

The business section was eventually bound back into the main Times newspaper.

Michael Duggan,
Fulbeck,
The Avenue,
Amersham,
Bucks HP7 0AS

Customers go on strike in the high street

From Mr H.E. Taylor.

Sir, While listening to a report on the television news concerning the fall in profits at Marks and Spencer, I had the benefit of an immediate reaction from one of its potential customers: "I'm not surprised. Their clothes this summer were rubbish."

I note from your reports that M&S's experience was shared by all other retailers in this sector. Perhaps one explanation for the "clothing bloodbath" is a customers' strike on grounds of taste.

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United traders of Europe

As the euro approaches, American investment banks are taking the lead in the restructuring of Europe's share trading floors, says **Vincent Boland**

The euro, its proponents claim, will change everything. Companies are starting to merge and reorganise on that premise or promise. Many of the changes so far have been tentative. But at least in one area, a radical reorganisation is underway. It could have a large impact on the character of the Europe's single capital market.

The companies concerned are the investment banks that dominate the buying and selling of European shares. Historically, their trading floors have been run by traders devoted to companies in a particular country. This is changing.

The investment banks' research arms were the first to reduce their country-based approach. A handful of the leading banks no longer publish country-specific research reports (except for the UK), producing instead tomes on everything from European chemicals to pan-European portfolio strategy.

Now, the trading floors are being reorganised along sectoral lines too, so that for example, one trader will trade all banking shares regardless of where they are based in Europe. This is the biggest reorganisation of trading floors for years.

"Within the context of the euro and the way equity markets are evolving, it is a very important first step in the development of a pan-European, sectoral approach to equity investing," says Thomas Troy, head of European equities at Merrill Lynch.

American banks are leading the way. Merrill claims to be the first of London's big equity trading houses to have completely reorganised its trading business to reflect the country-to-sector shift. Its trading floor has been working along sectoral lines since October 1.

Most of the other big trading houses are planning a similar move. Morgan Stanley Dean Witter says its London trading floor will have sector trading for European shares in place by the euro's first working day (January 4, 1999). Others plan to introduce sector trading over the next few months. In the fund management business, too, centralised trading desks have been set up at pension funds and investment management companies to co-ordinate in-house trading activity.

This shift is more than just an internal reorganisation. It is happening only a few months after the London and Frankfurt stock exchanges announced that they would join forces to build a common trading platform for the shares of their biggest companies – opening up the possibility that Europe could soon have a single stock market.

And it is happening because the banks are anticipating a slow but inexorable realignment of investment portfolios away from national stock markets towards pan-European sectors. This attitude is most marked among US fund managers which have long viewed Europe as a single equity market (which is also why US investment banks have led the restructuring).

But the change is wider than that. A survey of 100 European pension funds and fund managers, published by Goldman Sachs and Watson Wyatt in June, showed that 64 per cent of them were planning to manage their investment portfolios on a sectoral basis after economic and monetary union; only 9 per cent would remain country-focused.

"This represents a substantial shift from the way European portfolios were managed just a few years ago – it is the magnitude of the shift that is surprising rather than that it is occurring," Goldman Sachs noted.

As examples of the kind of portfolio shift that might occur as a result of the euro, traders say that German investors, for instance, hold relatively little stock in oil companies because the country has no oil industry. Similarly, Italian investors are underweight in information technology stocks because Italy lacks a developed IT sector. "All of these imbalances will be rectified over time," says a US banker.

Of course, there are several obstacles to a sustained country-to-sector shift. Few European banks are prepared to abandon their country desks entirely. "We see no reason to rush into sector trading – our clients don't want it yet and it would hurt our revenues," says the head of equities at a French investment bank in London. Adds Nick O'Donoghue, head of European equity sales at J.P. Morgan: "The principal market for German companies is Frankfurt, and for French companies it is Paris, and that's not going to change in January."

European banks are cautious about making a sudden switch for three reasons:

● Despite the moves by the London and Frankfurt bourses, Europe's stock markets have different trading systems, settlement rules and trading hours. This diversity, argue the banks, makes a single European stock market impossible at the moment.

● A mixture of cultural bias and inertia means that for a lot of European fund managers, the focus will remain overwhelmingly domestic for some time (French institutions will not immediately sell lots of French shares to buy, say Italian ones: change will be gradual). And for Switzerland and others, the rules requiring pension funds and insurances companies to match liabilities and assets in each currency will limit their ability to invest freely in the euro-zone.

● Not all of Europe's industrial sectors are genuinely cross-border activities. Industries such as banking, insurance and pharmaceuticals make a compelling case for pan-European status but the retail sector, and even telecommunications, which is beset by different regulatory systems, do not.

How quickly these obstacles are overcome depends on what happens to the proposed alliance of the Frankfurt and London stock exchanges. Until the alliance is completed and is seen to enhance the trend towards sectoral investing, there will be little need for a complete overhaul of the rest of Europe's trading floors. "The centralised exchange will be a significant demarcation point in the argument for sector trading," says an equities head at a German bank.

But if the initiative is successful, it will create an elite of pan-European companies, traded on a pan-European market by European traders appealing increasingly to pan-European investors – a prospect that one banker described as "nirvana".

It could also make Europe's single capital market more "Anglo-Saxon". Argument rages over future European accounting standards and transparency between those who favour continental traditions and those who want more open American standards. The early involvement of so many US investment banks trading pan-European shares could well increase the pressure on continental European companies to be less secretive.

FINANCIAL TIMES

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Tuesday November 10 1998

Europe's growing pains

In principle, the ambition of expanding the frontiers of the European Union to take in the new democracies of central and eastern Europe is absolutely correct. It will reinforce their democracies, and bind them in to the market economies of western Europe. The sooner it happens, the better. But in practice, it is already clear that it will be a long, hard slog – longer and harder than the applicant countries would like.

The launch of detailed negotiations at ministerial level with the six leading candidates in Brussels today is something of a token gesture. The seven "chapters" under discussion are supposed to be relatively uncontroversial, to give the talks a fair wind for the future. The decision to press ahead has been deliberately taken by a majority of the 15 EU member states, to give momentum to the process, and bring pressure to bear for other more difficult decisions to be taken.

Those decisions are not on the negotiating table, but they include some of the toughest traditional areas of internal EU dispute: sharing the budget burden, controlling spending (including on agriculture) and streamlining the decision-making process. Enlargement is inconceivable without progress on those issues. On top of that, a political solution has to be found for Cyprus, one of the six fast-track applicants, to settle the differences between its Greek and Turkish communities. A divided Cyprus cannot be allowed to bring its conflict into the heart of the EU.

Starting the enlargement negotiations will increase the pressure for solutions on all those fronts. But they have been launched without any clear strategy on the part of the EU-15 over where they should end up. There is an urgent need for clarity, if the outcome is not to be delayed by interminable wrangling, to the disadvantage of all.

For a start, the EU should state unambiguously that its ambition is to open the door to all 10 central and east European applicants, as and when they are ready. That process cannot be held hostage by the conflict in Cyprus, for example, as Greece has threatened. It also means that institutional reform must be introduced on the assumption that there will be at least 26 member states. It should not be introduced piecemeal.

The EU members should also focus today on the critical area of how to deal with its future neighbours, such as Russia, Turkey and Ukraine. They must not be shut out behind a new iron curtain, cutting off the traditional ties they have had with the accession candidates, as the EU seems currently determined. If countries such as Romania and Bulgaria are also shut out, there is a real danger that the hurdle of entry will become ever higher for them.

Mr Mighty

The government allowed just three months for comments on its draft legislation to overhaul the regulation of the UK's financial services industry.

With such a short deadline, it is scarcely surprising that there has been little attempt to challenge the underlying premise of the bill: the concentration into a single Financial Services Authority of the regulatory and supervisory powers previously exercised by nine separate bodies over different segments of the financial services industry.

That makes it all the more important to get the details right in a bill which will create one of the mightiest regulators the UK has yet contemplated, with powers to write its own rules, prosecute its own cases and levy fines at its own discretion.

As drafted, the financial services and markets bill is deficient in two main areas: accountability and fairness.

Accountability requires that an organisation with such unfettered powers over such a broad sweep of the UK economy should have a much stronger board to provide a proper internal counterbalance to the powers to be exercised by Howard Davies, the FSA chairman.

The FSA is also answerable to the chancellor. The chancellor should be very clear that he is therefore answerable to parliament for the authority he has created. When blame is assigned for the next supervisory failure, he should not escape.

Fairness, on the other hand, requires a redrafting of the FSA's disciplinary processes, which currently give those accused of wrongdoing few protections until after the authority has already decided to censure or fine them. Although the draft bill envisages a separate appeals tribunal run, like a proper law court, by the Lord Chancellor's department, legal protections should begin much further upstream.

In these two areas, as in many others, the fault lies not in what the bill says, but in what is left unsaid. The government's intention – to leave enough flexibility for the FSA to adapt to circumstances – is understandable. The powers entrusted to the authority are too sweeping for the financial services industry and the public at large to be asked to place so much trust in Mr Davies or, given his propensity for changing jobs, his successor.

The worst outcome of all, however, would be if the government took these criticisms so much to heart that it dropped the bill from its legislative programme. The interim arrangements under which the FSA is operating are unsatisfactory and must not drag on. Failure to include the bill in the Queen's Speech would damage both consumers and financial service providers.

Warm work

Saving the planet from overheating was never going to be easy. After the agreement in Kyoto in January on a timetable for curbing greenhouse gas emissions, 170 nations are now confronting the complexities of how it should be done.

The Kyoto protocol envisaged an average cut of 5.2 per cent in industrial nations' greenhouse gas emissions in the 20 years from 1990. But the price of this agreement was the use of general or ambiguous wording to bridge differences. These are now being explored in detail at the fourth Conference of Parties in Buenos Aires, which ends on Friday.

The most important issue is the role of global trading in emissions quota certificates. Establishing a credible system is vital, if only to keep the US on board. This system would allow the advanced economies to meet their targets relatively painlessly, by buying quotas from less efficient energy users.

Some progress has been made: on Thursday, the independent International Emissions Trading Association will hold its inaugural meeting under UN auspices in Buenos Aires. It hopes to be ready for a formal launch of a market in 10 years time. There are, however, formidable difficulties ahead. Foremost is the question of how emissions quotas should be allocated fairly. A simple per capita quota will hardly be accepted as fair, considering the huge disparity in carbon dioxide emissions. Per capita pollution in the US, for example, is some 16 times that in India. But setting quotas relative to existing energy consumption would protect inefficient polluters. Some compromise is needed.

Then there are suspicions that the US wants to use a trading system mainly to buy certificates for pollution cuts in Russia. But Russian emissions are likely to fall by some 25 per cent from 1990 to 2010, simply because of a contraction of the economy.

Critics of the US approach, particularly in the EU, have said that emissions trading should account for no more than half a country's target reduction. There is some force in this view: curbing the use of gas-guzzling cars in the US, or preventing the flaring natural gas in Canada must be part of any sensible plan for controlling emissions.

If the scientific consensus is right, deep long-term cuts in the emission of greenhouse gases will be needed over many decades. This process cannot be costless. It makes economic sense to tackle the easiest tasks first, wherever they are. A trading system could greatly help to achieve this. But if such a system is to be politically acceptable, all nations must be seen to be carrying their share of the burden, not simply buying their way out of trouble.

FT INTERVIEW ANTONIO FAZIO

Hawk among the doves

Italy's central bank governor tells James Blitz why he believes the country is badly prepared for Emu

Like the martyred saints whose images decorate his magnificent Rome office, the devout Antonio Fazio, governor of the Bank of Italy, knows what it is to make powerful enemies.

While Italians politicians make ever-more partisan points about an economy that has recently qualified for Europe's single currency, the 62-year-old central bank chief has stood above the fray and repeated an uncomfortable message with unswerving conviction: Italy is ill-prepared for the rigour of economic and monetary union.

And while Wim Duisenberg, the president of the European Central Bank, and Hans Tietmeyer, his colleague at the Bundesbank, insist that the ECB should be run by a powerful central executive body, largely immune from national pressures, Mr Fazio wants a looser arrangement in which national central banks retain a strong influence.

Not that Mr Fazio is any less of an inflation-fighter than Mr Tietmeyer. Up until two weeks ago, he was still keeping Italian short-term rates at least two percentage points above those of Italy's European partners, fearing a run on the lira and ignoring worries about Italy's sluggish growth rate. He has repeatedly warned ministers about the country's unsustainable pensions liabilities, its huge tax burden and the dead weight of both of these on competitiveness. He has also discreetly protected the Italian banking system from takeovers by foreign predators, insisting his country's banks need time to restructure.

Even now, just 50 days before Italy becomes a founder member of economic and monetary union, the governor is doubtful about how the country will perform once it has adopted the euro and the exchange rate weapon has gone. "We have bought time," he says flatly. "The country is enjoying a virtuous circle of declining interest rates and lower interest payments on its debt. I hope structural adjustments can now be made, otherwise the circle will turn vicious."

Mr Fazio speaks his mind. As governor, he stands above the intimately connected worlds of Italian politics and business in a way that has no parallel inside the country. Like the Pope, he is appointed for life. He can raise or cut interest rates alone, unencumbered by monetary policy committees or central bank councils. The Bank of Italy remains one of the few Italian institutions untouched by political corruption, although its image may have been tarnished in recent months by the revelation of its controversial $250m investment in Long Term Capital Management, a troubled US hedge fund. (Mr Fazio won't be drawn on the subject.)

The governor spells out his concerns. First, the budget deficit. Italy qualified for membership of EMU with a deficit of 2.7 per cent of gross domestic product for 1997, a remarkable 7.5 percentage point reduction over the past six years. But, as Mr Fazio notes: "Five of those percentage points are due to lower interest payments on the debt." The implication is that little, if anything, has yet been done to bring about structural cuts in current expenditure, especially in areas such as pensions spending.

Second, the rigidity of Italy's labour market. Wage levels in the Italian public and private sectors are still set nationally, with no regard to regional variations in productivity. "We need more flexibility in both sectors," he says. "Now that we are moving to what is effectively a hard money standard, the failure to create more flexibility will lend to reduced employment."

Many industrialists would argue that it is Mr Fazio's adherence to a tight monetary policy that has kept the unemployment rate high. But Mr Fazio argues it was the central bank's tight hold on the money supply which gave Italy the credibility it needed to join the euro. "I delivered the right dose of hawkishness for Italy given the circumstances of our past," he says.

Mr Fazio is hopeful that the problem of labour market rigidity will now be tackled by Massimo D'Alema, the ex-Communist who became prime minister last month. Mr D'Alema indicated in his first speech to parliament that he intends to liberalise the labour markets. "There is more attention to this now," Mr Fazio says. "The prime minister has stated clearly that the issue at stake is not simply how to boost GDP but how to boost employment."

Mr Fazio's concern over the policies of the new government in Italy are growing more acute because, in 50 days' time, he will be defending these policies within the European Central Bank council.

Like most of his fellow governors across Europe, Mr Fazio is preparing for his future as a member of the 17-person ECB council, which will decide monetary policy for the euro. With this hat on, he is worried that the new centre-left governments in Europe are discarding the need for structural adjustments, in favour of the rapid fix of interest rate cuts.

In recent days, the new German government has called on the Bundesbank to cut the euro benchmark rate, currently at 3.3 per cent. Mr Fazio is disapproving; his sympathies clearly lie with his fellow central bankers. "It is one thing to reduce interest rates from 7 per cent to 5 per cent. But when you reduce them from 4 per cent to 2 per cent, the multiplier effect on the economy is very low," he says.

He also opposes all calls for a revision of the stability pact, which sets strict budget deficit targets for all members of the Euro-11. "We cannot touch it," he says. He is critical of calls (led by Mario Monti, one of Italy's two European Union commissioners) for infrastructure investment to be excluded from the calculation of national budget deficits. "To make room for public sector investment, you must first reduce current expenditure," he explains.

However, Mr Fazio's role in the ECB council will be far from straightforward. The fact that Italy's economy is growing at a far slower rate than the rest of Europe means he will have to fight harder than other countries to ensure the "one size fits all" interest rate suits Italy as well as others.

This is perhaps why Mr Fazio is seen as an advocate of a more decentralised European Central Bank, and a potential adversary to those who would like to see the creation of a strong ECB with its own identity. The latter want the ECB's six-person executive, led by Mr Duisenberg, to be the key body, not subservient to the 11 national central banks which decide policy.

Against that view, Mr Fazio insists that "subsidiarity is the principle by which everything that can be decentralised must be decentralised. This is the basic principle, even of the Maastricht treaty." Mr Fazio repeatedly refers to the Frankfurt-based organisation not as the European Central Bank but as the wider institution of which the bank is part, the European System of Central Banks.

"All of us must vote [in the policymaking council] in the interests of the European area as a whole. But it is important to remember that the credibility and strength of the council derives from the credibility and strength of the national central banks themselves."

Mr Fazio likes to think of himself as the loyal servant entrusted with taking Italy into Emu, not unlike the painting in his office, which depicts St Christopher carrying the infant Jesus across a river. Once he has reached his goal, however, Mr Fazio says he will not give up custody of his charge. The baby will remain his responsibility.

No easy job to create jobs

For the past three years, Italian economic policy has focused on bringing the budget deficit under control so the country qualifies for Emu. Now that Italy looks set to be a founder member of the single currency, the principal concern of the politicians is to boost the country's sluggish growth rate and reduce its high level of unemployment.

Three times this year, the Treasury has downgraded its forecast for economic growth in 1998. The Treasury said last week it was now improbable that this would reach 1.8 per cent this year. Confindustria, the employers' federation, is forecasting that growth will be 1.5 per cent, among the lowest of the 11 states forming the euro.

The good news for Italy is that, despite lower then expected growth, the cost of servicing its debt (by far the largest in value terms in the new euro-zone) has come down in recent years. Growing confidence that Italy will qualify for Emu and the flight into government bonds during the recent financial crisis has significantly reduced the yield on Italian government bonds. The Treasury is still on target to reduce Italy's debt from 121 per cent of gross domestic product to 107 per cent by 2001.

The bad news is that the unemployment rate is still above 12 per cent and, on current policies, there is little likelihood of a significant reduction in the next few years. In its latest analysis of the economy, Centro Europa Ricerche, a prominent economics thinktank, forecasts that national unemployment will still be at 11.7 per cent in 2001.

Unemployment could be reduced if Italy could cut the tax burden on companies and individuals that helped it get into the euro in the first place. But this, in turn, would require significant cutbacks in the generousstate pensions payouts. The idea is a political minefield and has therefore been ignored.

Instead, Massimo D'Alema's new government, appointed a few weeks ago, is banking on forging a new "social contract" between employers, trade unionists and other social partners. Ideally, this would require unions to accept greater flexibility in wages, while employers agree to reduce profit margins and plough more cash into infrastructure investment. Round table talks – known in Italy as *concertazione* – have already started on this, but few people are predicting a speedy result.

JB

OBSERVER

A heady brew in Basle

The good burghers of Basle could be a mite miffed with the top brass at Ciba Specialty Chemicals. In their rush to merge with Clariant, a slightly bigger competitor, they have ditched one of the most famous names in world chemicals.

In 1859, Frenchman Alexander Clavel moved to Basle and established a dyeworks called the Gesellschaft für Chemische Industrie im Basle, or CIBA. By 1900 it was the biggest chemical company in Switzerland. The name survived the 1970 merger with Geigy to create Ciba-Geigy and even the recent get-together with Sandoz to create life sciences giant Novartis; Ciba Specialty Chemicals was spun off last year.

But the new group, which will be twice the size of its closest global competitor, has decided to adopt Clariant's rather anonymous handle. Ciba's spin-meisters point out that Ciba's logo, a multi-coloured butterfly, will grace the new corporate letterhead. But the Ciba name has been ditched.

Novartis, it seems, still retains the rights to the fine old title and, in a case of change of control, could have demanded SFr200m to hand it over. Rolf Meyer, Ciba's hard-charging chairman, must have decided it wasn't a price worth paying. If he'd been a chemist rather than an accountant he might have thought otherwise.

Royal progress

"Shall we dance?" asked Yul Brynner in the 1954 musical *The King and I*. Audiences loved it and now Hollywood wants the King of Siam and his English governess to put their best foot forward once more – on location in Thailand. The snag is that the Thai authorities don't like the script that's been presented by 20th Century Fox. Three weeks of negotiations and re-writes have failed to break the deadlock.

The Thai film board first objected to the Fox script last month, claiming that it was historically inaccurate and insulting to the Thai monarchy. Since then scriptwriter Laurence Blender has been hunched over his typewriter – but all to no avail. Yesterday the Thai authorities gave the new narrative a right royal thumbs-down. They say it is still biased in favour of Victorian governess Anna Leonowens, a real-life Brit invited to teach English to the children of one King Mongkut. The king, a Buddhist scholar and a linguist, isn't shown in the best light.

There's still talk of compromise and Fox is free to submit another script. But time is running out. Looks like Oscar winner Jodie Foster and leading man Chow Yun Fat, a big name in Hong Kong cinema, will have to perform their schmaltz waltz elsewhere.

Hungary for more

Giant western-style shopping malls aren't universally popular in Hungary. Sandor Lezsak, leader of the Hungarian Democratic Forum, said recently that Budapest was circled by retail multinationals – just as it was once surrounded by Soviet tanks.

Inflammatory stuff from a politician whose party is part of Hungary's ruling centre-right coalition. No surprise that the government pointedly failed to respond – except to point out that yesterday's $200m package to revitalise state-controlled bank Postabank had an unexpected source. International retailers like Auchan, Tesco and Metro pay their taxes more promptly, it seems, than the small traders they replace.

Flight of fancy

Talk about a polished performer. SC Johnson Wax chairman Sam Johnson is flying 7,500 miles from the company's Wisconsin headquarters to Brazil. But instead of travelling business class he's spending four weeks cooped-up inside a replica 1930s Sikorsky seaplane.

The flight re-enacts a pioneering journey made by Herbert Johnson, Sam's father. In 1935, just eight years after Charles Lindbergh first flew the Atlantic, Johnson senior took a couple of company executives and a botanist to look at carnaúba palms in their natural habitat. His interest wasn't purely scientific: the carnaúba palm produces the world's hardest natural wax, a fact of some interest to the paragon of polish manufacturers.

Sam Johnson, accompanied by sons Curt and Fisk, left the company's headquarters on October 22 and is scheduled to touch down in Fortaleza, Brazil, next Tuesday. All three Johnsons are keen pilots. But their twin-engined plane is a flying tortoise compared with modern executive jets and can't stay in the air for more than three hours between fill-ups.

Much razzmatazz is planned for their arrival, together with donations to local environmental charities. Fortaleza is where old Herbert set up his first palm plantation, an old-fangled version of what's now known as sustainable development.

Full Marx

France Telecom is leaving no stone unturned in its search for investors willing to participate in the second tranche of its partial privatisation. Yesterday's advertisements publicising the share offer included a four-page spread in L'Humanité, the French Communist party newspaper.

The Financial Times

100 years ago

Funerals For The Dead Drunk

A prospectus from Ireland announces the formation of a company to take over and run a couple of hotels in Cookstown. In the very heart of this thriving metropolis of some 4,000 souls rises the Stewart Arms Hotel, which the Company is to take over. There is a feature connected with this hotel which possibly makes it unique everywhere except in Ireland. Among the many departments carried on therein are not only a number of retail bars but also a funeral undertaking business. The Irish landlord recognised in a practical way the close connection that exists between public houses and funerals. The great convenience of having all the appliances at hand for burying a person who gets dead drunk on your premises is obvious.

50 years ago

I.M.F. And Latin America

M. Camille Gut, managing director of the International Monetary Fund, leaves this week-end for an extended tour of Latin America, where the continuing inflation is causing concern to the Fund, especially since current exchange policies in many of these countries are ill adapted to realities.

FINANCIAL TIMES
TUESDAY NOVEMBER 10 1998

THE LEX COLUMN

Exuberance exhumed

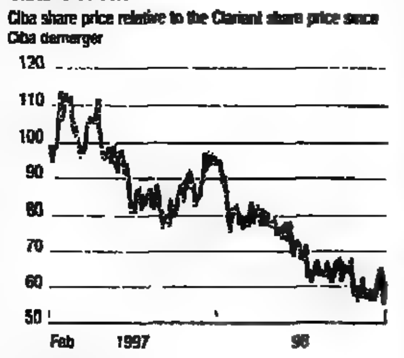
Call it the flight from quality. US corporate bond spreads have narrowed by a quarter since early October; emerging market bond spreads by more than 40 per cent since late September; and the US stock market has jumped 17 per cent in the past month. The flip-side has been a 50 basis point increase in Treasury yields, which had been the beneficiary of investors' earlier panic.

A return of confidence was appropriate. One month ago, investors were overly pessimistic, pricing in deflation and global meltdown. Since then, interest rates have fallen in the US and Europe, there has been progress on reform in Japan and Brazil and some deleveraging by hedge funds. The US economy also put in a robust showing in the third quarter. Given the speed and strength of the rally, however, the danger is rapidly becoming excessive optimism. Some corporate bond spreads narrowed by 30 basis points last week – more than they usually move in a month. And US equities are only 5 per cent below their July peak. Yet the economy is clearly slowing and the earnings outlook, particularly for manufacturers, has deteriorated sharply.

Bulls point to further interest rate cuts by the Federal Reserve, starting next week. Given the risks to growth and quiescent inflation, this still looks likely. But with liquidity returning, there is less pressure on the Fed to ease aggressively. It is time for the markets to take a breather.

Ciba/Clariant

Ciba/ Clariant
Ciba share price relative to the Clariant share price since Ciba demerger



Source: Datastream/ICV

How neat. First Ciba and Clariant's parents got together to form Novartis, now the former offspring are following suit. The similarities between the two Swiss speciality chemicals groups were so clear when Ciba's demerger was announced that it was described as Clariant Mark 2. Now, with chemical prices sagging and customers wanting a global service, the deal's industrial logic looks unimpeachable.

But it needs more than fine strategy to create value, as Ciba should know from questions about the high price it paid for Allied Colloids.

On the one hand, the two companies are to be praised for acting quickly to address pricing pressures and slower growth in their markets. On the other, this merger will make it conveniently difficult to judge both companies' progress on their last big deals. Clariant, for instance, has yet to deliver the full benefits of its takeover of Hoechst's speciality chemicals business.

So will the pair do better together? They ought to, but the challenge is considerable. Ciba brings a hefty SFr5.5bn net debt to the party. The combined total of close to SFr9bn should be reduced to push interest cover comfortably above four times. Promised savings of SFr400m by 2001 should be exceeded, especially as they are costing twice that to achieve. Management needs to be melded and motivated. Ciba has the edge at the top; much depends on Rolf Meyer living up to his reputation.

German restructuring

To judge from the slew of impressive-sounding restructuring programmes from the likes of Viag and Siemens, Germany had better get used to the sound of the falling axe this winter.

The prospect of shareholder value-minded managers using the worsening trading environment to push through difficult and long-awaited cost-cutting measures has helped to propel the Dax skywards again. Although still 23 per cent below its July peak, it has rebounded 22 per cent from its low just one month ago. But with expectations of 1999 earnings growth now halved to around 7 per cent, the worry is that investors are banking on a more sweeping economic transformation than is actually on the cards.

Long-term trends towards greater reliance on capital markets over banks, openness in accounts and rationalisation in pursuit of shareholder value seem well-established. But with increasingly immoderate unions banking on a red-green coalition to reverse the few supply-side reforms of the Kohl era, executing the promised programmes will require real management grit. In cases such as Siemens', sceptics can point to the magnitude of the task ahead and to past targets that have slipped unlamented. The advent of the euro will certainly bring the discipline of the capital markets to bear and rouse a somnolent market for corporate control. But to justify current expectations much blood will have to flow first.

British Airways

Politics are not British Airways' strong suit. But the signs are it has learned something from the last two years of haggling with regulators, namely, to start with modest ambitions. It has traded its alliance with American Airlines for a far less ambitious code-sharing deal.

But its scaled-back aims may have a silver lining. The last thing BA wants right now is a big-bang opening up of Heathrow to more US airlines – the price of regulatory approval for the alliance. The company is under enough pressure from falling yields as it is. An extra 10-15 per cent of capacity on transatlantic routes would be truly destructive to profitability.

Of course, BA's robust negotiating tactics are its trademark. The company believes the US authorities cannot block its proposal of a limited code-sharing deal. This is no way to make friends in Washington. BA may have precedent on its side, but its assumptions have been wrong before – hence the present stand-off. And the US authorities are surely in no mood to give BA an easy ride, now that the prospect of opening up Heathrow to US airlines has been put back. In the meantime, BA has been sensible in cementing both its own and American Airlines' relations with a web of other airlines, such as Cathay Pacific. This will help offset the competitive damage that rival alliances are causing.

Former Venezuelan coup leader in big poll gains

Investor confidence hit by election success of left-wing alliance

By Raymond Colitt in Caracas

Investor confidence in Venezuela was crumbling yesterday following congressional and governorship election victories by the party alliance backing the presidential campaign of Hugo Chávez, the former coup leader.

With nearly 70 per cent of Sunday's vote counted, the left-leaning Polo Patriótico grouping won an estimated 34 per cent of congressional seats as well as seven out of 23 governorships. The recently assembled PP is now the largest force in congress and its success marks a break-up of the country's political system.

But the alliance faces staunch opposition in congress with few possibilities of forging a coalition. The populist Mr Chávez has provoked fears of unconstitutional rule and civil unrest by pledging to call for a constituent assembly to replace congress if he wins the presidential vote on December 6.

The social democratic Acción Democrática and the Christian democratic Copei parties, which have governed for 40 years, appear to have won only 22 per cent and 11 per cent of congressional seats. The party of Henrique Salas, second in opinion polls for the presidency and favourite of the business community, secured only one governorship and an estimated 12 per cent in congress.

Mr Chávez's populist rhetoric and pledge to crack down on corrupt politicians may have captured much of the anti-establishment vote but the Caracas stock exchange fell 4.5 per cent on the results in morning trading. The blue-chip Electricidad de Caracas, the largest private power company, dropped 8 per cent.

"We knew [electoral] results were going to be bad, but this is worse than we expected," said Miguel Octavio, of Bancaracas brokerage in Caracas. "There is no way to stop Chávez now."

Venezuela's benchmark Global 27 bond fell 4.5 points in early trading in New York, but had recovered slightly by noon. "The market has not yet fully discounted Chávez," says Joyce Chang, emerging markets debt strategist with Merrill Lynch in New York. "Investors are nervous and there is concern about his idea to shut down Congress."

One New York-based investment banker said it was worrying that "Chávez won an important oil producing state such as Zulia". Venezuela is one of the world's main oil exporters and foreign investors are committing tens of billions of dollars in an aggressive expansion plan.

"We are concerned that Chávez would be very interventionist with PDVSA [the state oil company]," said Nancy Northrop, vice-president with Alliance Capital, an investment fund. "He could stall privatisation and will use populist measures to meet the demands of his constituents," she said.

Aurelio Concheso, director of Fedecamaras, the influential industry federation, said: "This guy is going to be bad news for Venezuela. He will attempt by trial and error all the populist economic policies we already know do not work."

Fund managers predict euro will soon rival strength of dollar

By Edward Luce in London

Global fund managers now believe the euro will be a strong currency in relation to the US dollar and will soon rival the dollar as the preferred currency for debt issuance.

These findings, contained in a report issued by Deutsche Bank today, stem from the largest survey yet conducted on global investor views on Europe's future single currency.

"Investors were worried that a broad European monetary union, which included Spain and Italy, would mean a weak euro," said Ifty Islam, a senior economist at Deutsche Bank. "However, this view has altered sharply."

Economists say the change in attitude towards the euro has come with the realisation that the euro zone will have a large structural trade surplus – estimated at $100bn, or 1.5 per cent of the euro zone's gross domestic product.

The US, by contrast, is expected to record a trade deficit of about $140bn in 1998. Italy and Spain regularly post trade surpluses, indicating their membership of the first wave of Emu could help strengthen the exchange value of the future single currency.

In addition, the European Central Bank is expected to take a more hawkish stance on inflation than the US Federal Reserve, implying that monetary policy will be tighter in the euro zone than in the US, according to Deutsche Bank.

A total of 193 global funds, including a number of central banks, took part in the survey, representing $7,500bn worth of funds, or about 25 per cent of total worldwide funds.

A large majority of US fund managers, with collectively almost $2,000bn worth of funds under management, said the euro would have a strong exchange value *vis à vis* the US dollar.

In addition, 73 per cent of the investors polled, including a majority of US fund managers, said the euro would rival the US dollar as the preferred currency for debt issuance within five years.

As central banks are among the main investors in bonds, this implies that the euro could also rival the US dollar as a reserve currency by 2003. At the moment, about 50 per cent of all international bonds are denominated in US dollars, compared with about 25 per cent in euro zone currencies.

The report suggests, however, that the growth of a broad, US-style corporate bond market in Europe could take longer than many have anticipated.

More than 50 per cent of the funds polled, of which about half were located within the euro zone, said regulations prevented them from buying securities rated below single A by Standard & Poor's and Moody's Investors Service, the rating agencies.

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A policeman fires teargas during the general strike in Bangladesh. At least two people were killed in yesterday's action. Page 6 Reuters

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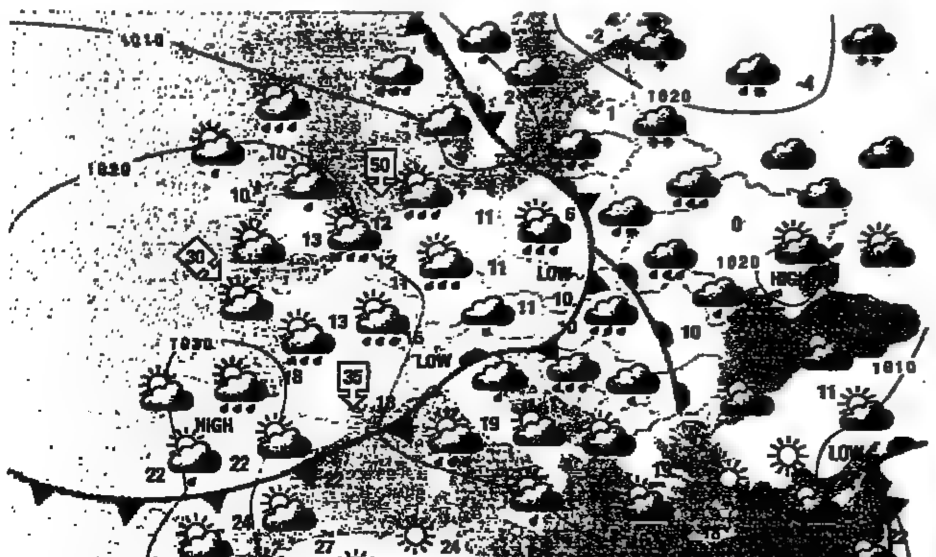
FT WEATHER GUIDE

Europe today

Much of Scandinavia and the Baltic states will have snow, but it will become milder in the south, with snow turning to rain. Eastern Europe will have rain preceded by snow. Rain in central areas will move into the Balkans, followed by sunshine and showers, some of them heavy. North-west Europe will have sharp showers at first, but these will clear later. Northern parts of the Iberian peninsula and central and northern areas of Italy will have showers. Much of the Mediterranean will stay dry, but thundery showers are likely around the Levant.

Five-day forecast

Western Europe will have rain tomorrow. This will spread across central and eastern areas before moving through the Balkans and the eastern Mediterranean, where it will turn heavy and thundery by the weekend. Cold air over Scandinavia will spread south, with northern areas turning wintry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	30
Accra	Fair	32
Algiers	Sun	27
Amsterdam	Shower	12
Athens	Fair	19
Atlanta	Fair	20
B. Aires	Fair	22
B.ham	Fair	11
Bangkok	Fair	32
Barcelona	Fair	21
Beijing	Cloudy	15
Belfast	Shower	10
Belgrade	Rain	13
Berlin	Shower	11
Bermuda	Fair	24
Bogota	Cloudy	20
Bombay	Fair	34
Brussels	Shower	12
Budapest	Rain	10
C.hagen	Shower	9
Cairo	Fair	24
Caracas	Fair	30
Cardiff	Fair	12
Casablanca	Fair	24
Chicago	Shower	15
Cologne	Shower	12
Dakar	Fair	30
Dallas	Sun	18
Delhi	Sun	27
Dubai	Cloudy	31
Dublin	Fair	10
Dubrovnik	Fair	17
Edinburgh	Fair	10
Faro	Sun	24
Frankfurt	Rain	12
Geneva	Shower	15
Gibraltar	Sun	24
Glasgow	Shower	10
Hamburg	Shower	11
Helsinki	Snow	-2
Hong Kong	Sun	26
Honolulu	Fair	30
Istanbul	Fair	14
Jakarta	Thunder	32
Jersey	Fair	14
Johannesburg	Fair	21
Karachi	Sun	33
Kuwait	Sun	33
L. Angeles	Fair	20
Las Palmas	Fair	27
Lima	Cloudy	22
Lisbon	Shower	22
London	Fair	13
Lux.bourg	Shower	11
Lyon	Shower	15
Madeira	Fair	24
Madrid	Fair	22
Majorca	Fair	22
Malta	Sun	21
Manchester	Shower	11
Manila	Rain	31
Melbourne	Fair	23
Mexico City	Fair	23
Miami	Fair	29
Milan	Cloudy	13
Montreal	Shower	7
Moscow	Snow	-4
Munich	Shower	12
Nairobi	Fair	26
Naples	Shower	20
Nassau	Fair	28
New York	Shower	13
Nice	Fair	18
Nicosia	Fair	24
Oslo	Sleet	3
Paris	Shower	13
Perth	Sun	34
Prague	Rain	11
Rangoon	Fair	34
Reykjavik	Sleet	3
Rio	Thunder	28
Rome	Fair	19
S. Frsco	Shower	15
Seoul	Fair	12
Singapore	Shower	30
Stockholm	Snow	2
Strasbourg	Shower	13
Sydney	Fair	24
Tangier	Fair	24
Tel Aviv	Thunder	22
Tokyo	Fair	18
Toronto	Rain	14
Vancouver	Cloudy	9
Venice	Rain	14
Vienna	Rain	11
Warsaw	Shower	6
Washington	Shower	17
Wellington	Fair	16
Winnipeg	Snow	0
Zurich	Shower	13

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 — TUESDAY NOVEMBER 10 1998 — Week 46

INSIDE

Commerzbank breaks new ground

Commerzbank of Germany has broken new ground by persuading investors to take over the risk on a large portion of its loan portfolio without knowing the identity of the borrowers. It said the insurance policy on the "blind pool" of assets was a useful risk diversification tool, as it did not harm relations with borrowers. Page 24

Jakarta rollercoaster rolls on

Indonesia's stock market has been taking a rollercoaster ride and analysts warn that last week's recovery of 17.6 per cent might be undone just as quickly if political unrest undermines fragile investor confidence. The market's surge may look impressive, but a rally in September and October, which took prices up 76 per cent, quickly lost momentum. Page 36

Canada tightens stock regulation

The Vancouver stock exchange was named in 1989 "scam capital of the world" by Forbes magazine over its stock manipulation by insiders playing in thinly traded issues. Canada's provincial bourses are vulnerable because of the high proportion of volatile mining stocks listed and the fact that regulators work on a regional rather than national basis. But they are now co-operating in what they term a "virtual national securities commission". Page 20

Kenyan sugar takes a beating

Up to 1.5m Kenyans are dependent on a sugar industry facing its worst crisis for years. Traders are estimated to have evaded import duties on 90,000 tonnes of sugar in the first eight months of the year and a former minister is facing import fraud charges. Meanwhile, the east African state's seven sugar companies are saddled with 80,000 tonnes of unsold stock. Page 26

Bank to raise $9bn for Latin America

The Inter-American Development Bank is to raise an additional $9bn from global capital markets in the next two years to lend to Latin American sovereign casualties of the financial crisis, including Brazil. Page 24

Battle for control of Brierley

The future of Brierley Investments, Australasia's oldest and biggest corporate raider, will be decided today at what promises to be an acrimonious annual meeting. A vote will decide who will run the New Zealand company. Page 19

Dollar bounces against yen

The dollar bounced up above the Y120 barrier but appeared to lack the momentum to break out of the range it has traded in for several weeks. It closed in London at Y121.3, three yen higher than on Friday. Page 25

Metals prices forecast to drop

London Metal Exchange-traded metals prices will continue to fall next year, with nickel worst hit, according to the research team at Billiton Metals, the UK mining group being sold to Metallgesellschaft of Germany. Page 26

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MARKET STATISTICS

Fiat and Renault in foundry tie-up

Car groups plan to create leader in automotive components with annual sales of $2bn

By Paul Betts in Milan and David Owen in Paris

Fiat of Italy and Renault of France are to merge their foundry activities to create a world leader in automotive components with annual sales of L3,300bn ($2bn).

Under the agreement – the latest consolidation in the sector – Fiat's Teksid steel and metals subsidiary will absorb the bulk of Renault's foundry business.

Financial details were not disclosed, but the two automotive groups said Teksid would launch a capital increase reserved for Renault, under which the French company would acquire a 33.5 per cent stake in the enlarged Teksid with Fiat holding the remainder.

The foundry deal is further confirmation of the close ties developing between Fiat and Renault. This year the two companies decided to pool their bus manufacturing operations in a jointly held company.

However, Renault said yesterday the deals did not "prefigure a global rapprochement or alliance with Fiat".

The agreement is the latest example of Fiat's strategy of reinforcing its automotive-related activities through mergers, alliances and acquisitions.

For its 33.5 per cent stake, Renault will bring to Teksid four foundries controlled by its AT Systèmes subsidiary. These include three French foundries and one Portuguese operation. The transaction does not include AT Systèmes' Le Mans foundry.

Renault will also bring to the table its aluminium foundry at Cleon, near Paris, as well as its metals research and development activities based in Paris.

These activities employ 3,600 people with sales of FFr3bn ($540m) and operating profits of FFr130.8m last year.

Renault, still 44 per cent state-owned, said teaming with Teksid would enable it to enter many countries, rationalise purchasing and offer better terms to its clients. It said Teksid would also bring it technological know-how in areas such as magnesium.

Teksid, with 22 subsidiaries worldwide employing nearly 12,000 people, reported sales of L2,305bn and operating profits of L104bn last year.

The two companies said they expected to see the enlarged group start operating in the first four months of next year pending approval by the European Commission.

They said the new group expected to see annual revenues grow from L3,300bn to L4,800bn over five years when they plan to invest about L1,000bn.

The market has long been anticipating that Fiat would seek a strategic alliance or merger with another car manufacturer. But both Mr Paolo Fresco, Fiat's new chairman, and Paolo Cantarella, chief executive, recently reiterated the company was not in any merger negotiations over its core car activities.

Fiat's other related automotive and industrial businesses have been engaged in alliances, acquisitions and mergers.

Magneti Marelli, Fiat's car components subsidiary, recently forged a strategic alliance with Midas, the Chicago-based car repair and service group.

Japanese stocks back in favour, says survey

By Jane Martinson in London

Fund managers have turned bullish on the Japanese equity market in a sharp reversal of sentiment since the summer.

A survey of 244 institutional investors with funds under management of more than $6,000bn carried out last week by Merrill Lynch, the US investment bank, and Gallup, the market research group, found that the Japan equity market has been promoted from least favoured to most favoured market in the past month.

The number of buyers of Japanese equities outnumbered sellers by almost 25 per cent. Last month, sellers predominated. Pacific Basin equities also enjoyed a rally in sentiment.

However, Trevor Greetham, global equity strategist at Merrill Lynch, said he was cautious about the improved sentiment, which was largely based on the belief that a continued weak dollar would lead to lower interest rates in Asia. He questioned whether the dollar would remain weak.

The survey found that fund managers have amassed particularly high levels of cash and this has prompted big buying of global equities.

The UK was the second favourite equity market, although there were more buyers than sellers of all leading stock markets. At the same time, US, continental European and Japanese bonds all suffered a downturn in demand.

Last month's US interest rate cut helped spark an 18 per cent rally in global stock markets, the biggest one-month increase since the end of the Gulf war in 1991.

Mr Greetham warned that this month's optimism could be short lived as it was based on high levels of cash. "Liquidity-inspired rallies are pretty dangerous," he said. "They can rise very quickly and then reverse very quickly."

He added that there was "an aggressive mood to cut cash". In the US, the number of fund managers planning to invest cash outweighed those planning to increase it by 33 per cent. Cash balances have already fallen to 5 per cent on average in continental Europe, compared with 7 per cent last month, while UK managers are holding 7 per cent in cash, well above their five-year average of 4.5 per cent.

Washington threatens to block airline link-up plan

By Michael Skapinker, Aerospace Correspondent

British Airways is heading for a clash with the US over its plans for a scaled-back alliance with American Airlines.

Robert Ayling, BA chief executive, insisted yesterday the company had the right to conclude a code-sharing deal with American under Bermuda II, the bilateral UK-US air agreement.

However, a US official warned that the US would block any code-sharing, under which BA and American would sell seats on each other's flights, unless London's Heathrow airport was substantially opened to competition.

The clash came as BA announced half-year, pre-tax profits down 10.5 per cent to £285m ($461m). Profits were hit by a 4.3 per cent drop in yields, or the amount passengers pay per kilometre.

The fall was due to a decline in the proportion of first and business class customers and price competition for economy passengers. The shares closed unchanged at 405p.

BA said it would achieve savings of £800m this year as part of its plan to reduce costs by £1bn by 2001. Last year's result was distorted by the cost of a cabin crew strike and profits from the disposal of BA's stake in US Airways.

Earnings per share were up 7.3 per cent to 30.9p and BA raised the interim dividend 8.5 per cent to 5.1p. Turnover rose 6 per cent to £4.7bn.

BA said last month that it had scaled back plans for a fully fledged alliance with American because the price demanded by regulators in Brussels was too high.

The European Commission has demanded that BA and American give up 267 weekly take-off and landing slots at Heathrow and Gatwick airports in return for approval of their link-up, which envisaged the joint setting of fares.

Washington demanded an "open skies" agreement with the UK as a precondition for approving the alliance, which would open Heathrow to all US airlines. Under Bermuda II, American and United Airlines are the only US carriers permitted to fly to Heathrow.

BA said last month it would prefer Heathrow to be opened to competition gradually. In return, it would settle for a code-sharing arrangement with American for four or five years. It would hope to receive antitrust immunity from the US, permitting the full alliance to begin operating when open skies came into effect at the end of that period.

Mr Ayling said yesterday that BA and American were entitled to code share on flights beyond Heathrow and large US cities under the existing agreement, although not on routes they both serve. This would mean, for example, that American could sell seats on BA flights from London to Johannesburg. BA could sell seats on American flights within the US.

However, a US official said it would refuse to allow code-sharing unless Heathrow was substantially opened. "The US is not going to look favourably on any significant co-operation between the two dominant players in a closed market," he warned.

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STREAMLINING COMES AS GERMAN CONGLOMERATE ANNOUNCES 17% RISE IN EARNINGS

Viag disposals leave focus on industrial base

By Ralph Atkins in Munich

Viag, the Munich-based conglomerate with interests in power and telecommunications, is to streamline its activities, disposing of logistics and other businesses with annual sales of about DM15bn ($9bn) – some 30 per cent of group turnover.

The decision, which follows Siemens' restructuring announcement, highlights the pressure on Germany's diversified industrial groups to concentrate their activities.

Viag said yesterday's move reflected logistics' relatively low profitability and poor fit with the two "pillars" identified for development by Wilhelm Simson, chairman. These are: power and telecoms activities; and industrial holdings, covering chemicals, aluminium and packaging businesses.

Mr Simson said Viag would be "a more focused conglomerate" that would look to balance earnings from its industrial and energy interests.

Viag would not put itself under time pressure to divest logistics activities, but Klöckner, the steel trading business acquired in 1990, could be sold early next year – and certainly within three years. Viag's 30.3 per cent stake in Kühne & Nagel, the Swiss shipping group, would also be sold. Funds from the disposals could be used to cut debt or finance acquisitions.

Viag said it wanted to buy out other shareholders in Goldschmidt, the speciality chemicals business in which it has a 56 per cent stake. Goldschmidt would be brought under the wing of Viag's main SKW Trostberg chemicals group.

The restructuring plans came as Viag announced a 17 per cent increase in pre-tax earnings to DM2.6bn in the first nine months of 1998. Adjusted figures, including the sale of this year of Computer 2000, the personal computer distributor, showed pre-tax earnings up 14 per cent. Sales were up 8 per cent at DM39.5bn.

For 1998 as a whole, Mr Simson predicted a 5 per cent rise in operating results, including start-up losses of about DM700m in telecoms. Viag Interkom, its telecoms joint venture with British Telecommunications of the UK and Telenor of Norway, was "outstripping" expectations, Viag said, but was not expected to break even until 2001. Viag shares yesterday rose DM24, or 2 per cent, to close at DM1,155.

Mr Simson toughened significantly Viag's opposition to the German government's plans for withdrawing from nuclear power, which accounts for 55 per cent of the country's generating capacity. Negotiations with the Social Democratic/Green party administration would become "impossible" if the government acted too hastily, he warned.

Viag's dependence on nuclear power makes it particularly vulnerable to the new government's energy plans.

Mr Simson said: "We are entering these negotiations with an open and constructive attitude, but, bluntly speaking, we will not agree on a consensus at any price."

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Siemens upbeat, Page 18

Wilhelm Simson, chairman, yesterday toughened Viag's opposition to German government plans for withdrawing from nuclear power.

Fleet Financial to buy Merrill specialist firm

By John Authers in New York

The floor of the New York Stock Exchange is feeling the tide of mergers and consolidation that has already flowed through the rest of the US financial services industry.

Specialist firms – whose job is making markets in individual stocks, operating auctions and finding market-clearing prices – have seen a series of mergers in recent months that have required drastic alteration to the layout of the trading floor, as newly united firms try to operate together.

Yesterday's announcement that Merrill Lynch, the large Wall Street brokerage, was selling its specialist business to Fleet Financial, the Boston-based banking group, in a deal worth about $150m, continues the trend.

It creates the second largest specialist firm, and means that only one full-service brokerage – Bear Stearns – still has its own specialist firm.

But consolidation may not be enough to answer longer term questions about the viability of the industry. Stock market volatility, running at exceptional levels for several months, strains the companies' capital base. Now that most firms are larger, any collapse of a specialist could inflict serious damage on the market's liquidity.

In addition, the advent of new technology, as exemplified by last week's completion of the merger of Nasdaq, a quote-driven market which does not use the auction process, and the American Stock Exchange, which is order-driven, appears to threaten the traditional structure of the industry.

Merrill Lynch entered the business only in 1987, when it bought a firm that had run into difficulties in the wake of that year's stock market crash.

Merrill said the decision to sell had nothing to do with capital requirements. It said: "The business has little synergy with our core equity business. There's a trend towards consolidation within the specialist industry, and we decided it would be an appropriate time to divest as part of our efforts to focus on core businesses."

Its firm will be consolidated into JJC Specialist, a division of Fleet's Quick & Reilly brokerage.

Gunnar Overstrom, Fleet's vice-chairman, said Fleet had examined the specialist business, and decided it liked the secular growth trends and the high returns on capital that were available.

He said the deal was not intended to provide synergies with other parts of the Fleet Group or to allow cost cuts. Instead, he said that Fleet had decided to invest in the business. He said: "This is essentially to give us a bigger exposure to the specialist business, which we find offers very good long-term growth rates."

He said the company was not concerned about the impact of new technology, pointing out that the New York Stock Exchange had already adopted many aspects of new technology within the auction market system.

Merrill Lynch's business employs about 60 people.

BANKING GERMAN AND ITALIAN GROUPS ANNOUNCE L2,400bn CROSS-SHAREHOLDING DEAL WITH A VIEW TO STRONGER GRIP ON BCI

Generali and Commerzbank unveil alliance

By Paul Betts in Milan and Tony Barber in Frankfurt

Assicurazioni Generali, Italy's largest insurer, and Commerzbank, Germany's fourth largest bank, yesterday announced a L2,400bn ($1.46bn) cross-shareholding alliance aimed in large part at strengthening their grip on Banca Commerciale Italiana, the privatised Milan banking group.

Generali will pay about L1,200bn for a 5 per cent stake in Commerzbank, with the German bank paying a similar amount for a stake of nearly 2.5 per cent in the Italian insurer.

The announcement coincided with a long-awaited BCI board meeting that gave the go-ahead for exclusive merger negotiations with Banca di Roma.

Giuseppe Stefanel, a BCI board member, said the board had given its two chief executives the mandate to study a merger with Banca di Roma, which would create Italy's largest banking group.

He added the board had decided to suspend separate negotiations over a possible alliance with Turin-based San Paolo-IMI, currently Italy's largest banking group.

Both Generali and Commerzbank, which each own nearly 5 per cent of BCI, have favoured a merger between BCI and Banca di Roma, while Deutsche Bank, which recently acquired a 4.5 per cent stake in BCI, has appeared to favour a deal with San Paolo-IMI.

Commerzbank had become concerned by Deutsche Bank's move on BCI and had indicated in recent weeks that only one German bank should be represented on the Milan bank's board.

At the same time, Deutsche Bank had been seeking the support of other BCI shareholders, such as France's Paribas, to press the case for a partnership with San Paolo-IMI.

Mediobanca, the Milan investment bank which is the largest shareholder in Generali, has also been actively promoting a BCI-Banca di Roma combination.

Earlier merger efforts were blocked this year by Luigi Fausti, the BCI chairman forced to resign at the end of September. He has since been replaced by Luigi Lucchini, who has supported a merger with Banca di Roma.

Generali's 5 per cent stake in Commerzbank makes it the single largest shareholder in the German bank.

The investment will strengthen the insurer's presence in Germany, where this year it acquired a 65.7 per cent stake in AMB, the German insurer, after losing the battle for AGF, the French insurer, to Allianz of Germany.

Under yesterday's agreement, Generali and Commerzbank will have a seat on each other's boards. Commerzbank will also have a seat on the AMB board.

For Commerzbank, one attraction of the accord is the size of the Italian insurer's operations in Germany, where it has almost 8 per cent of the market. This should allow the bank to offer its products to a wider range of customers.

BNL confident despite Russia loan exposure

By Paul Betts in Milan

Banca Nazionale del Lavoro's Russian loan exposure may affect its full-year 1998 earnings but the Italian bank still expects to meet its target of a 14 per cent return on equity in three years.

Davide Croff, BNL's chief executive, warned yesterday, at the start of the bank's privatisation road-show, that profits this year would be cut if it were required to increase its 26 per cent Russian loan coverage ratio.

This month, the government is selling its 81 per cent stake in BNL, which has L1,152bn ($701m) of gross loan exposure towards Russia.

However, Mr Croff emphasised that BNL was less vulnerable to external economic factors than others, because its strategy was to continue improving internal efficiency.

"We have already acted on our cost structure and the re-organisation of our central management," he said.

Mr Croff added that the bank's strategy was to expand its retail banking operations, enhance asset management, and increase its operations in the country's small- and medium-sized company sector.

After shedding 2,000 jobs in the last three years, the bank is planning an extra 3,000 job cuts to reduce staffing levels by a further 13 per cent.

The bank's cost-to-income ratio without trading gains fell to 72.5 per cent this year from 81 per cent last year.

Adding trading gains, the ratio would fall to 55 per cent this year, Mr Croff said. The target was to see the ratio excluding trading gains fall to 61 per cent by 2001.

Excluding extraordinary restructuring provisions, the bank reported an adjusted 8 per cent return on equity in the first half of this year, when net profits totalled L82bn, including L444bn restructuring charges for the job-cut programme. "We are reconfirming our target of a 14 per cent return on equity by 2001," he added.

Although BNL is the joint controlling shareholder of Banco di Napoli together with Ina – the Italian insurer acquiring a 7.25 per cent stake in BNL's core shareholding group – Mr Croff said there were no plans to merge the Naples bank with BNL.

The Italian Treasury is due to announce on Saturday the maximum price for its public share offer, to be launched on Monday, November 16.

It expects to raise a total of L7,600bn-L7,700bn from the sale of the state's entire stake in the bank.

The chemistry of attraction behind Ciba-Clariant merger

Growing competition has put a premium on size, and companies are focusing increasingly on added value, writes **William Hall**

The merger of Ciba Speciality Chemicals with the slightly larger but less profitable Clariant is not only the latest step in the rapid consolidation of the global speciality chemicals industry. It is also another sign of the growing concentration of power in corporate Switzerland.

For years, the big three Swiss pharmaceutical companies – Roche, Sandoz and Ciba – prided themselves on their independence. But following the 1996 merger of Sandoz and Ciba into Novartis, the big three shrank to the big two.

Now Ciba and Clariant, already market leaders, are merging to create a company which will have sales of SFr18bn ($13bn), a staff of 55,000 employees and operations in 120 countries. It will be more than twice the size of the UK's Imperial Chemical Industries, its nearest global competitor.

Increasing competition in the $100bn-a-year global speciality chemicals market, combined with a sharp slowdown in growth, has put a premium on size, and companies are increasingly focusing on sectors where they can add value.

Among recent deals, Hoechst sold its Herberts coatings business to DuPont; ICI bought Unilever's chemicals operation; and Rhône-Poulenc floated its chemicals, fibres and polymers activities in Rhodia.

Clariant itself is still digesting last year's acquisition of Hoechst's speciality chemicals unit, a business three times its size, while Ciba has just completed the SFr3.6bn purchase of Allied Colloids, of the UK.

Many of the deals have been motivated by cost-cutting. The enlarged Clariant is promising SFr600m of annual pre-tax cost savings by the end of 2001.

However, Rolf Meyer, 55, chief executive-designate of the new Clariant, stresses that the merger is not just another cost-cutting story. Only 3,000 jobs will go from the combined workforce of 55,000, or 5 per cent of the total. He says the merger is driven by growing consolidation among customers such as DaimlerChrysler.

"Our customers want to deal with global suppliers who can deliver performance and technical know-how on a global basis," says Mr Meyer. He also stresses that the SFr650m a year to be spent on research and development will give the enlarged group a competitive advantage in producing new products, such as new additives to improve food packaging and new materials for the semiconductor industry.

The two companies are cagey about their combined market share, which is bound to attract the attention of various regulators. For the moment, they are saying only that they will be represented in 30 of the 40 segments of the global speciality chemical industry.

The new Clariant will have five core businesses: additives and water treatments; cellulose ethers; process chemicals; fine chemicals; and colours. It has singled out several "growth platforms" in the area of water treatment, fine chemicals for pharmaceuticals and agrochemicals, as well as electronic chemicals. It will focus on high-value-added chemicals with innovative properties, effects and environmental solutions.

Rolf Schweizer, 68, Clariant's chairman and chairman of the enlarged group, says the two companies had spoken over the years but serious negotiations began only six weeks ago. "Both companies increasingly faced the same opportunities, difficulties and challenges. Their financial targets and growth strategies were moving closer together and their product portfolios were becoming increasingly complementary.

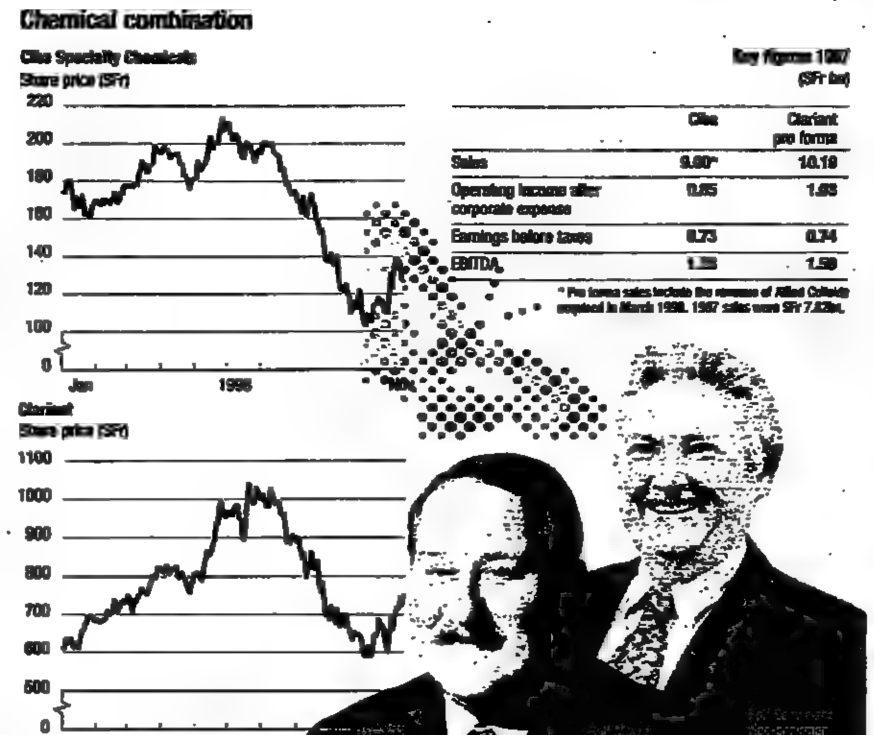
"We can achieve our objectives faster and with less risk when we work together," he added.

The market's initial enthusiasm for yesterday's deal was driven by the group's commitment to boost operating margins to 20 per cent of sales and grow revenues some 50 per cent faster than the underlying rate of world economic growth. Analysts also have a high opinion of Mr Meyer, a former Ciba chief financial officer.

However, the new company will be highly indebted, and both managements are untested in an economic slowdown. Clariant was spun off from Sandoz only in 1995 and has yet to prove that its highly leveraged acquisition of Hoechst's speciality chemicals arm is a long-term success.

Meanwhile, the credibility of Ciba's new management has been dented by failures in its performance polymers unit, which it now aims to sell, and the high price paid for Allied Colloids.

Chemical combination



Key figures 1997 (SFr bn)

	Ciba	Clariant pro forma
Sales	9.60*	10.19
Operating income after corporate expenses	0.85	1.63
Earnings before taxes	0.73	0.74
EBITDA	1.35	1.59

* Pro forma sales include the revenue of Allied Colloids acquired in March 1998. 1997 sales were SFr 7.82bn.

Siemens upbeat on chip division

By Graham Bowley in Frankfurt

Siemens could be ready to launch the stock market flotation of its troubled semiconductors business by late next year or in 2000, and believes further plant closures are unlikely, according to Ulrich Schumacher, the division's chief.

The division, which incurred losses of DM1.2bn ($722m) last year after chip prices collapsed, could return to profit in Siemens' next financial year, which begins in October 1999, if chip prices recovered as expected, he said.

In addition, Siemens was unlikely to have to close its semiconductor plant in France, which is a joint venture with International Business Machines, or its plant in Dresden, Germany, Mr Schumacher said in German press interviews.

Heinrich von Pierer, Siemens' chief executive, announced last week that semiconductors would be spun off in a public offering, as the centrepiece of a wider restructuring to shed businesses with sales of DM17bn and employing 60,000.

However, there remained deep uncertainty about the timing of the flotation and the prospects for the division.

Siemens was forced earlier this year to close its two-year-old, £1.2bn ($2bn) semiconductor plant in the north-east of England with the loss of 1,100 jobs.

But Mr Schumacher, who will head the new company when it is floated, appears to want to push ahead with the flotation soon and is upbeat about its prospects.

There would be a "clear reduction" in losses at the semiconductor business in the current financial year, which began in September. The division would be restructured into a self-standing company by early next year but no large job cuts were planned, he said. However, Siemens said there could be some "further capacity adjustments".

There had been speculation that Siemens' French plant would fall victim to the downturn in semiconductor prices. But Mr Schumacher said Siemens was discussing several solutions to the plant's difficulties with IBM and would come to an agreement soon.

Loosening of French taxation law urged

By Samer Iskandar in Paris

A relaxation of French tax law may help France attract central treasury operations of multinational groups, according to corporate treasurers.

The move, announced last week, ends 15 years of lobbying by the Association Française des Trésoriers d'Entreprise, an association that promotes the interests of corporate treasurers, to remove what it described as "fiscal inefficiencies" that deterred companies from centralising European treasury operations in France.

"With the euro, a lot of companies will move from having a number of treasury teams [across the EU] to having just one," said Gérard Soularue, AFTE chairman. Companies with pan-European operations would have been more likely to locate those teams outside France, had the government not addressed its concerns.

The AFTE has asked the government to rescind two tax laws. The first is a withholding tax on interest payments by French-based companies to related companies abroad. This made it costly to offset debtor accounts against creditor accounts held by companies in the same group.

The second law caps the rate of tax-deductible interest charged between companies, meaning a company lending to a sister company cannot charge a rate of interest that reflects the borrower's creditworthiness.

The relaxation would mean "more jobs in Paris, more business for banks and more liquidity in the French market," Mr Soularue said.

NEWS DIGEST

PHARMACEUTICALS

Teva sees higher growth despite decline in sales

Teva, Israel's largest generic drugs company, said yesterday it was confident of a return to higher profitability and growth despite a fall in nine-month net income and lower sales in the US and domestic markets. Over the nine months, net income fell nearly one-third, from $101.2m in the same period last year to $67.4m, as sales dropped from $825m to $819m. Nine-month sales in North America, which accounts for 51 per cent of total revenues, fell from $361m to $325m.

Third-quarter results, however, pointed to a gradual recovery. Net income amounted to $25.3m compared with $35.8m over the previous year. Revenues, which reached $303.3m compared with $286.7m, were boosted by the inclusion of sales by Pharmachemie, the Dutch generic drug group acquired in July. Pharmachemie is expected to push up Teva's net income next year once it is fully consolidated.

Domestic sales, which make up about one-quarter of sales, are expected to remain sluggish, following the devaluation of the shekel. Over the nine months, they fell 13.5 per cent. Teva was also hit by weak sales and price erosion of Clonazepam, one of its leading generic drugs in the US which last year contributed $130m to total sales. Its revenues for the first quarter reached only $17m, but Eli Hurvitz, president and chief executive, said sales had recovered in the third quarter. **Judy Dempsey, Jerusalem**

CHEMICALS

Henkel to increase dividend

Henkel said yesterday it would pay a higher dividend this year, even though it expects full-year 1998 net profit to grow at the same rate as it did last year. The German household chemicals group, which also reported a 17 per cent rise in net profit in the first nine months to DM525m ($315.8m), said that despite difficult conditions in Asia, Russia and Latin America, it expected to maintain the 13 per cent profit growth it posted last year.

Ulrich Lehner, chief financial officer,said Henkel would raise its dividend this year above 1997's DM1.35 per common share and DM1.45 per preferred share. He added that the company was sticking to plans to give about one-third of its net profit back to shareholders.

Nine-month group sales rose 8 per cent to DM16.1bn while pre-tax profit grew 27 per cent to DM916m. Henkel shares closed DM2 lower at DM132. **Reuters, Frankfurt**

TEXTILES

Marzotto climbs 48%

Marzotto, the Italian textiles and clothing group, yesterday reported a 48 per cent increase in consolidated nine-month net profits to L90bn ($54.7m), on a 10 per cent rise in revenues to L2,138bn. The sharp profit increase reflected special gains in the first half as well as improvements at its subsidiaries Hugo Boss and Linificio e Canapificio Nazionale, and the parent company's clothing sector. However, the parent company's textile operations were hit by the poor conditions in the wool market, due in part to the Asian crisis. Group net operating profits rose 4.6 per cent in the first nine months to L293bn. **Paul Betts, Milan**

MOTORWAY OPERATORS

Brisa climbs after offering

Shares in Brisa, the Portuguese group which is one of Europe's largest toll motorway operators, gained strongly yesterday after a secondary global offering of 31 per cent of the group raised about Es150bn ($880m). The shares closed at Es8,833, up almost 6 per cent on the offer price of Es8,350, which was fixed at a discount of 1.8 per cent on Friday's closing price of Es8,500.

Fernando Teixeira dos Santos, Portugal's treasury secretary, said the offering was highly successful given "particularly difficult international market conditions." The retail offer of 9.3m shares was 18 times subscribed. The institutional tranche of 7.6m shares was 6.5 times subscribed. Deutsche Bank and Portugal's Banco Cisf, global co-ordinators, are almost certain to exercise an over-allotment option to sell a further 1.7m shares. The sale increases Brisa's free float to 65 per cent after the sale of 34 per cent a year ago. **Peter Wise, Lisbon**

COSMETICS LEADING JAPANESE TOILETRIES GROUP COULD SPIN OFF HOUSEHOLD GOODS BUSINESS AS FIRST-HALF EARNINGS FALL 73%

Shiseido cuts overseas expansion targets

By Alexandra Harney in Tokyo

Shiseido, Japan's leading cosmetics and toiletries group, pushed back its targets for overseas expansion and could spin off its accessories and household goods business into an independent company next year following a very poor first-half performance.

The group, which launched an aggressive campaign to increase overseas sales just as the Asian currency crisis began, saw net earnings fall 73 per cent, from Y9.4bn ($78.99m) to Y2.57bn for the six months to September.

It said the growth in revenues from outside Japan was not enough to offset the damage from the recession at home.

The Japanese financial and economic crisis, which has sent equity values down and soured consumer sentiment, was the main reason for the collapse in profits.

The group took a Y3.9bn extraordinary loss from the devaluation of securities holdings, particularly from bank shares.

Although sales slipped 1 per cent overall from Y310.5bn to Y307.3bn, turnover in Japan slid 4.7 per cent to Y256.2bn.

The toiletries division and salon businesses fared worst. Sales of soap, shampoo, and hair lotions tumbled 5.2 per cent as income fell 9.3 per cent. The newly acquired salon business lifted sales 22 per cent, but failed to generate a profit.

Profits were also hit by the instability in Asian markets, where currency losses and fallout from the financial crisis slowed returns.

Income from markets in Asia fell 17 per cent, compared with 24 per cent growth in earnings in Europe and 2.2 per cent growth in North America.

Overseas sales expanded 23 per cent, but the company warned that this growth could slow in the second half if the yen again weakened against the dollar.

Based on a calculation of Y120 to the dollar, it expects a 53 per cent decline in full-year profits from Y16.8bn to Y8bn, on sales flat at Y620bn.

Sales outside Japan are expected to reach only Y100bn, an 8 per cent increase on last year, 16 per cent of total turnover. Its target is to generate 25 per cent of its sales overseas by 2003.

The group said it had delayed its plan to pursue mergers and acquisitions. But executives said the group would stick to a plan to improve turnover by expanding its core businesses.

Komatsu suffers first-half deficit

By Alexandra Harney

Komatsu, the Japanese construction machinery group, yesterday reported its first interim loss, owing to a collapse in the domestic market.

The Y1.15bn ($9.7m) in consolidated losses, against profits of Y8.82bn in the first half last year, reflects the sharp contraction in demand in the construction industry and the cuts in capital spending amid Japan's economic recession.

The decline in demand has been compounded by the Asian financial crisis, as industrial production and capital investment has slowed across the region.

The group, which makes construction equipment as well as industrial machinery and electronics, suffered a 15 per cent decline in domestic sales, from Y276.37bn to Y234.27bn.

Although sales overseas were up 22 per cent to Y395.54bn, the gains were not sufficient to offset the poor performance in Japan.

The construction and engineering division suffered the biggest decline, with sales down 18 per cent from last year to Y28.4bn, largely as a result of the downturn in housing demand.

The company was also hit by the collapse in the semiconductor market. Sales of electronics, including memory chips and liquid crystal devices, slipped 5 per cent, from Y31.83bn to Y30.5bn.

The only division that saw growth in sales was construction equipment. Sales of construction and mining machinery jumped 8.1 per cent to Y379.7bn, mainly as a result of strong sales in the US and Europe.

The results were worse than analysts' expectations, although they had viewed the company's earnings targets as overly optimistic. Shares in Komatsu ended unchanged at Y623.

The group pledged to return to profitability in the full year and launched an 18-month cost-cutting plan, including plant closures, to save Y3bn a year in production costs. The year-end dividend has been suspended.

For the year ending March 31 1999, the group expects consolidated profits of Y1bn on turnover of Y1,100bn.

Komatsu said it would absorb two of its subsidiaries, also construction equipment makers, and would increase its stake from 30.4 per cent to 50.9 per cent in Komatsu Zenoah, another group unit, as part of the restructuring of its production facilities.

Battle lines drawn in fight for control of Brierley

Dispute over the future of Australia's biggest corporate raider is to be decided by today's annual meeting, writes **Terry Hall**

The future of Brierley Investments, Australasia's oldest and biggest corporate raider, will be decided today at what promises to be an acrimonious annual meeting.

A crucial vote will decide who will run the faction-ridden company. The battle is amongst a group of directors and management led by Sir Roger Douglas, former New Zealand finance minister; Shamrock, a Los Angeles-based investment company controlled by the Roy E. Disney family; Asian investors who own 28 per cent of the company; and Sir Ron Brierley, the company's founder who now heads UK-based Guinness Peat.

In an attempt to resolve some of the issues, Brierley announced on Friday it was appointing Selwyn Cushing to the board as chairman.

Mr Cushing is supported to varying degrees by most of the factions. However, his appointment will not secure peace at the meeting: dissident directors, Shamrock and big US investment funds, say they intend to fight on to secure the removal of Sir Roger and his allies by forcing a vote at the meeting.

Brierley Investments is an attractive target. Its main asset is Thistle Hotels of the UK, but it is the biggest shareholder in a string of other profitable companies including Air New Zealand, Australian building products group James Hardie and John Fairfax Holdings, owner of The Sydney Morning Herald, the Australian Financial Review and the Melbourne Age.

It has struggled for survival since a surprise boardroom coup in April ousted both Bob Matthew, chairman, and Paul Collins, chief executive, amid accusations of poor performance.

The coup was backed by the company's biggest shareholder Malaysian-based Camerlin, a consortium of Asian industrial companies headed by Quek Leng Chan, which has been facing its own financial problems.

Camerlin had been concerned at a fall in the Brierley share price from the $NZ1.40 it had paid for its stake in 1996. Subsequent uncertainties saw the price fall to NZ 30 cents, although an aggressive programme of asset sales has seen this lift to NZ 55 cents yesterday.

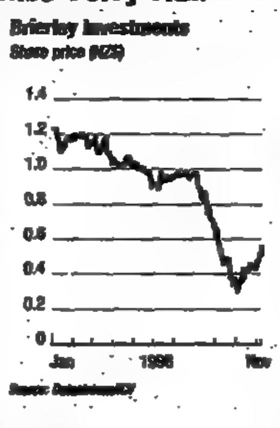
Much of the company's problems since April have been caused by a rift between Camerlin and Sir Roger, who assumed the jobs of both chairman and chief executive.

He hired consultants and carried out an aggressive asset write-down programme that culminated in a record loss of NZ$900m (US$484.9m) in the year to June. His asset sale programme included selling Thistle Hotels.

However, Sir Roger reportedly incurred Camerlin's displeasure for failing to consult, and the relationship deteriorated further after the failure of an attempt to sell Thistle. This prompted him to embark on an aggressive programme of selling other assets, including Ibstock, the UK brickmaker.

Asset sales had raised NZ$1.2bn by late last month, three months ahead of schedule. Brierley now has total debt of NZ$2bn and gross assets put at NZ$5.2bn.

Despite this, Camerlin forced Sir Roger to resign as chairman in September.



The arrival on the scene of the Disney-backed Shamrock group last month added a new twist. Shamrock suddenly announced it had 2 per cent of the shares and launched a public relations blitz against the way Sir Roger and existing management and directors were running the company.

It said it believed it had the backing of Camerlin and other big shareholders including the US-based Franklin Resources group. It said it wanted to invest NZ$200m in the form of convertible notes and sought options over further Brierley shares.

It also demanded two board seats and a three-year management contract at a fee of NZ$10m a year. Mystery surrounds the precise level of support enjoyed by Shamrock. Camerlin said last week it "broadly" supported Shamrock, and would make the extent known at the annual meeting in the way it voted for directors.

Shamrock says it is confident it has sufficient support from Camerlin and other shareholders to ensure the defeat of three directors who are standing for re-election who are all seen to represent the Sir Roger faction.

It sees their removal as opening the way for it to gain control of Brierley's board. In support of its campaign it is attacking the "palatial" offices of Brierley executives, the level of severance payments and how they would not rush asset sales.

All these are particularly sore points with shareholders, and are certain to lead to bitter exchanges at the meeting.

The role that founder Sir Ron Brierley will play at the meeting is not yet known. Sir Ron was removed from running Brierley in 1989, but retains a board seat and is still a significant shareholder.

He has called the Shamrock bid opportunistic, and he is likely to support Mr Cushing, an old friend who is now Air New Zealand chairman, as he attempts to steer the company through further turbulence.

Sir Ron Brierley is likely to back Selwyn Cushing

Telkom Indonesia returns to the black

By Sander Thoenes in Jakarta

Telekomunikasi Indonesia, the partially privatised telephone utility, returned to black in the third quarter as a rebound from rupiah foreign-exchange losses together with cost savings lifted margins.

Telkom, the largest stock on the Jakarta Stock Exchange, yesterday reported nine-month net profits of Rp328.1bn ($39.3m), down 71.1 per cent from Rp800.5bn for the first nine months of 1997 but up from a loss of Rp1,176.7bn in the first half of this year.

A rebound in the rupiah/dollar rate from Rp12,925 to Rp10,820 cut net foreign-exchange losses from Rp4,465bn to Rp2,497.4.

The company claimed success in improving cash-flow in the quarter, boosting operating profits by 11.1 per cent to Rp2,134.1bn, but this represented a slowdown from the first-half rise of 17.6 per cent.

Capital expenditure, at Rp4,022.9bn, exceeded the 1998 budget of Rp3,100bn, in part because the rupiah devaluation boosted the cost of dollar-denominated equipment.

Telkom lost out on Rp199.8bn in revenues from foreign partners, following a retroactive agreement in August to reduce their contributions for 1998 to allow for the deterioration of both demand and financing costs since Indonesia slid into recession.

These partners, including Cable & Wireless of the UK, and US West, are expanding and operating Telkom's networks in the outer islands of Indonesia.

Telkom and its partners managed to raised the number of lines in service to 412,068, despite losing 201,201 subscribers in the third quarter, including 41,115 in the regions operated by the foreign partners.

Telkom's seven cellular joint ventures lost 26.8 per cent of their subscribers, with Deutsche Telekom's Satelindo the worst hit.

Its shares rose Rp75 to Rs2,625 on the Jakarta Stock Exchange yesterday. Owned 75.8 per cent by the state, it is also listed on the New York Stock Exchange.

HK groups mull Kwong On stake

By Louise Lucas in Hong Kong

Guoco Group, the Hong Kong-based conglomerate, and its banking arm Dao Heng Bank Group said yesterday they had had "a very preliminary discussion" about a possible purchase of shares in Kwong On Bank.

Fuji Bank of Japan put a controlling 50.1 per cent stake in Kwong On up for sale last month. Dao Heng was touted as a buyer, but Hong Leong Company, Guoco's main shareholder, subsequently said it was mulling a takeover bid for its 31.37 per cent-owned Hong Kong arm.

The sale of Kwong On comes as small banks in Hong Kong are facing pressure on several fronts, with loan growth flat and – for most of the year – high interest rates squeezing margins. A few other banks have been tipped as acquisition targets, including First Pacific Bank.

Guoco and Dao Heng said in a statement to the stock exchange yesterday that they had "shown an interest" in buying the Kwong On Bank stake but that terms had not been agreed, nor any binding commitment made.

"The group would consider factors including pricing, enhancement to its return on equity and synergy to its banking business before deciding whether to proceed with any further negotiation on such acquisition," they said.

Shares in both companies were suspended yesterday ahead of the announcement.

Guoco's own fate remains in the balance, with no progress on the bid launched by Hong Leong Company, which is controlled by Malaysia's Kwek family. The bid was dependent upon obtaining a number of regulatory waivers.

NEWS DIGEST

VEHICLE MANUFACTURING

Fuji Heavy results lifted by strong US demand

Fuji Heavy, the Japanese car and truck group, yesterday cheered investors with better than expected results for the first half of this year. Its shares rose Y43 to close at Y627. The group, which markets Subaru cars and trucks, said strong demand in the US and Europe helped raise net profits 1.5 per cent, from Y8.71bn to Y8.84bn ($75m).

The Japanese car industry has been hit by the fall in domestic consumer demand, which has forced carmakers to make sharp production cuts in recent months. Last week, Mitsubishi Motors warned it would fall into the red this year.

At parent level, Fuji Heavy saw record mid-term earnings – operating profit was Y28.5bn, which it expects to improve to Y54bn, another company record, in the full year. This compares with Y24.5bn in the halfway stage last time.

In Japan, sales slipped 4.4 per cent to 196,000 units, despite the company's summer launch of an improved version of Legacy. First-half sales of the Pleo mini-wagon were also slower than expected, falling 10.5 per cent against the same period last year.

The fall in domestic sales was offset by growth overseas, where sales climbed 26.7 per cent to 81,000 vehicles.

The group's other businesses had mixed results. Sales of engines for construction machinery slid 16.1 per cent to Y16.7bn, owing to a slackening of demand in Japan and south-east Asia. However, sales in the aerospace division, led by orders from the defence agency and private groups, jumped to Y37bn, up 17.2 per cent on last year. Group sales improved 2.5 per cent, from Y407.2bn to Y417.26bn. Fuji Heavy also recorded a Y7.3bn loss on equity holdings, primarily in the banking sector. It is maintaining its interim dividend of Y3.5 per share.

In the current year, the group said it expected that the overseas launch of the new Legacy and expanded sales of the Pleo wagon in Japan would support modest growth in earnings after taxes to Y18bn on turnover of Y880bn. This compares with net income of Y17.24bn and sales of Y856.37bn last year. **Alexandra Harney, Tokyo**

TELECOMS

PLDT benefits from weak peso

Philippine Long Distance Telephone, the country's dominant telecommunications provider, reported a 35.4 per cent increase in nine-month net profit on the back of a depreciation of the peso and an increase in call volumes.

The rise, from 5.78bn pesos to 7.006bn pesos ($176m), came despite slower growth of new subscribers in the third quarter. Excluding "unusual expenses" in 1997 – related to a redundancy programme – the percentage gain in net profit would have been 21.6 per cent.

Operating revenues, including those from PLDT's recently consolidated subsidiary Filipino Telephone, rose 61 per cent to 38.9bn pesos. The company said revenues were boosted by rises in charges following the depreciation of the peso and a rebalancing of rates charged for local, long-distance and international calls.

Analysts said the results were largely in line with expectations although there was some concern about slowing line growth in the third quarter. They said the number of the company's subscribers fell in the period by 296 to 1,702,622. **Tony Tassell, Manila**

CARMAKING US AUTO GIANT AGREES 10-YEAR DEAL ON STABLE PRICES AND NEW APPLICATIONS

GM unveils aluminium deal with Alcan

By Scott Morrison in Toronto

General Motors, the world's largest auto maker, has announced a 10-year multi-billion dollar agreement to purchase aluminium at stable prices and co-develop new automotive applications with Alcan.

The Canadian aluminium producer's shares were 3.4 per cent higher at C$43.40 following the announcement.

The deal will enable GM to augment the use of aluminium to produce vehicles that are lighter, more fuel-efficient and produce fewer emissions. The agreement is a strong indication to Alcan that GM is committed to increasing the use of aluminium in its products.

A key element of the agreement is that it would set predictable aluminium prices based on production costs rather than commodity prices. Aluminium price volatility has made it difficult for auto makers to plan for the material's use in cars and trucks. GM would also use third-party financing to manage the price risk.

The agreement would guarantee GM a steady supply of aluminium from Alcan, which recently announced it was adding capacity with a US$1.6bn smelter in Quebec. GM would use the aluminium to produce a variety of components and structures and it said it would work with Alcan to develop new automotive applications for the metal, including the aluminium intensive automobile.

Aluminium content in vehicles currently averages about 210 lbs per car and truck, equivalent to about 7 per cent of the weight of a vehicle. Alan Brown, an Alcan spokesman, said his company anticipated that new technology would enable producers to increase aluminium content to about 700 lbs, or about 40 per cent of the weight of a lighter vehicle.

While aluminium is primarily used in a vehicle's closures and panels, auto makers have been working *to develop cars and trucks* that have aluminium frames.

"The important thrust will come as car makers adopt aluminium structures," said Mr Brown. Donald Macmillan, president of Alcan's automotive products division, said a 10 per cent reduction in mass would yield a 6-8 per cent improvement in fuel economy.

GM currently buys about 1.7bn lbs of aluminium annually, equivalent to just over US$1bn at current market prices. The company has said it intends to increase *usage by 7 per cent or more* a year. The auto maker said Alcan supplied about 25 per cent of its aluminium needs.

Alcan has invested US$200m over the past decade to develop new automotive applications for aluminium and the company recently announced the formation of a global automotive products division. The Canadian group currently supplies about 150,000 tonnes of aluminium to the transportation sector, mostly for use in autos. The company expects over the next 10 *years to supply about 300,000* tonnes annually to the auto sector.

S&P applauds action over Banco Mayo

By Ken Warn in Buenos Aires

Standard & Poor's, the US credit rating agency, said yesterday that prompt action by Argentina's bank regulator over the failed Banco Mayo had bolstered the country's credit standing.

The Superintendency of Banks last month suspended Banco Mayo after a run on deposits. Its $700m-plus deposit base and most of its branch network were sold to Citibank in a deal expected to be concluded this week, while a handful of other institutions will take over the remaining branches.

"Argentina has been resolute in keeping troubled private-sector financial institutions off the sovereign balance sheet," said John Chambers, managing director of S&P's sovereign ratings group. "If some Asian countries had shown similar resolve, the distress in that region would have been less."

However, the way in which Banco Mayo is being wound up has angered the holders of $100m of eurobonds that it issued earlier this year. Under Argentine banking law these investors are pushed towards the back of the creditors' queue.

Fundación Capital, the local economic think-tank, recommended at the weekend that the banking authorities should seek "integrated solutions" for the restructuring of troubled financial institutions that would respect the claims of bondholders as well as those of depositors.

"In Argentina, investors know that the government takes a *laissez-faire* attitude towards its private-sector banks. Therefore, bank suspensions have only a limited impact on depositor or investor sentiment," said S&P. It maintains a "BB" foreign-currency rating on Argentina, with a stable outlook.

Argentina's banking industry has seen rapid consolidation since the 1995 Tequila financial crisis. The top five banks in the system now account for almost 50 per cent of all deposits.

Earlier this year Banco Mayo, a co-operative bank, took over Banco Patricios, which was itself suspended in March after a run on deposits.

Local bankers said Banco Mayo had grown too fast and had been caught out by the recent international financial turmoil, but declined to comment on rumours of financial irregularities at the bank.

Fund managers waver on Venezuelan pensions

Raymond Colitt reports on an untested market with potential

With the Venezuelan government having last week approved landmark social security legislation paving the way for private pension funds, foreign and domestic fund managers are warily eyeing this oil-rich country, which is beset by economic, political and regulatory uncertainties.

"There is room for a decent but not a tremendous profit margin," says José Gonzalo Muci, head of Bancaracas, a local investment bank. "It's a capital-intensive business and competition will be tough." He estimates that some 20 pension fund administrators (AFPs) may operate initially, but that less than 10 would remain after two to three years.

The new law allows AFPs to begin operating from January 1 2000. The contribution will be 11 or 12 per cent of an employee's salary to an individual capitalisation fund and there will be an additional 1-2 per cent payment to an obligatory solidarity fund, which is to guarantee a legally fixed minimum pension for all workers.

Seventy-five per cent of the contributions will be made by employers and the remaining 25 per cent by employees.

The solidarity fund ensures wider coverage and a potentially larger market than in other Latin American countries. Yet analysts say only 15 per cent of a workforce of 9.5m are potential contributors to pension funds in Venezuela. Some 4.5m people work in the non-*regulated sector*, 1.1m are unemployed, and there are countless workers in the public sector, especially the armed forces and the oil industry, with their own "parallel" pension funds.

"In theory, Venezuela's new legislation sets the basis for a more equitable system and wider coverage than in other countries of the region," says Orlando Díaz, a labour expert with the Latin American Social Research Institute (ILDIS) in Caracas.

Indeed, the biggest challenge for any AFP will be to ensure attractive returns for its holders in Venezuela's volatile economy. In the last 12 months alone, real interest rates have gone from deeply negative to 40 per cent above inflation and back down to around zero.

The stock exchange went from the world's best performing in 1996 to Latin America's worst performing in 1997. Due to tenacious inflation rates over the years (estimated at 30 per cent in 1998) domestic savings are minimal.

"It's not the best framework to launch the new system but we see potential and there is no going back now," says Orangel Dávila, at Seguros Orinoco, a local insurer negotiating to set up *an AFP with Inlsa, owner of* Chile's leading pension fund.

Investors are also awaiting the outcome of presidential elections on December 6. Leading the polls is Hugo Chávez, whose authoritarian background has led many companies to freeze their investment plans.

Despite the adverse conditions, some investors are moderately optimistic. "Pension funds are a long-term project and you cannot place your bets on the current market situation alone," says Mr Muci of Bancaracas.

Many Venezuelan workers have mixed expectations. Most retirees receive only Bs75,000 ($131) a month after having contributed as much as $610 per month for years. In addition, they have not been paid in full for 11 months.

"I'm not sure what [AFPs] will bring, but it cannot get much worse," said an elderly worker resting on a park bench in downtown Caracas.

Summer success: Rupert Murdoch's Fox made some of the best selling films of the season.

Jump in profits at Fox raises profile for IPO

By Christopher Parkes in Los Angeles

News Corporation yesterday sharpened investors' appetites for stock in its US film and television arm with the unveiling of doubled first-quarter profits and a 30 per cent increase in revenues at Fox Entertainment Group.

The announcement, which allowed a rare insight into News Corp's US operations, will be followed this week by an initial public offering of 13.4 per cent of Fox, expected to raise almost $3bn.

Net income rose to $57m or 10 cents a share, after $28m and 5 cents last time, on revenues of $1.8bn.

Although the IPO will leave Fox still firmly under the control of Rupert Murdoch, News Corp chairman, a persuasive "road-show" among potential investors has generated keen interest.

According to the results, growth was led by 20th Century Fox, the film division responsible for four of Hollywood's most successful summer releases.

Following on the heels of *Titanic*, a co-production with Paramount, they included *Dr Dolittle* and the low-budget surprise hit *There's Something About Mary*.

Operating income from film more than doubled to $125m from $60m last time, when Fox's biggest US summer release was *Picture Perfect*, which sold only $29m-worth of tickets. Film revenues rose 32 per cent to $1.1bn.

Operating income from television broadcasting, which includes the Fox Network and assets such as 22 TV stations, dipped marginally to $108m, as General Motors, which is the biggest single source of advertising revenues for all US TV broadcasters, cut spending because of prolonged strikes.

Fox hinted at better results to come from a current reporting period that has included heavy advertising spending on political campaigns. The film division may also gain as the home video version of *Titanic* has been released in the international market, where Fox owns the rights.

Other assets bundled into Fox Group are cable interests, including fast-growing sports, round-the-clock news and entertainment channels, and News Corp's holdings in top-ranking sports teams, including ownership of the Los Angeles Dodgers, part-shares in New York's Knicks and Rangers and options on holdings in the Los Angeles Lakers basketball team and the city's ice hockey team the LA Kings.

The proceeds of the offering, expected on Wednesday or Thursday, would be used to reduce debt and finance a previously-announced share repurchase scheme.

Vivendi buys 23 US plants

By David Owen in Paris and Christopher Parkes in Los Angeles

Vivendi, the acquisitive French communications and environmental services group, is significantly increasing its North American power production capacity by acquiring 23 north-east US power plants in a deal worth $1.7bn.

Sithe, its 60 per cent-owned US independent power production subsidiary, is buying the non-nuclear assets of General Public Utilities in what it described as a "decisive step" for its international energy activities.

It said the deal would make Sithe the leading independent electricity producer in the north-east US. This would give it sufficient critical mass in a market that has been at the forefront of world deregulation.

Energy last year accounted for about 15 per cent of the former Générale des Eaux's turnover. But the company views this and other "environmental services" as a growth area. It is keen to compete in its home market of France, which should start to open early next year.

For GPU, which is repositioning itself as a power marketing and transmission company, the Vivendi deal was the "definitive step" in its plan to withdraw from generation, said Fred Hafer, chairman and chief executive.

The sale is likely to be the first in a renewed wave of power transactions in the US expected to follow last week's rejection by voters in California and Massachusetts of attempts to hamper industry deregulation.

Ballot initiatives aimed at annulling bonds issued to recoup billions of dollars tied up in so-called "stranded assets" – nuclear and oil-fired plant seen as uneconomic in a liberalised market – were rejected in both states.

Utility campaigns warned consumers of higher bills if the initiatives passed.

Of the 23 plants covered by yesterday's deal, 17 are in Pennsylvania, five in New Jersey and one in Maryland.

Sithe said it was studying an additional agreement with a strategic partner for up to 50 per cent of the assets included in the deal. Sithe is owned 29 per cent by Marubeni of Japan and 11 per cent by management.

AMP quits defence strategy

AMP, the Pennsylvania-based maker of electrical and electronic connectors, said yesterday that it would not pursue legislative initiatives to fend off AlliedSignal's hostile takeover attempt, reports AFX in Harrisburg, Pennsylvania.

AMP sponsored initiatives in Pennsylvania that would provide "for an orderly shareholder vote on the important matter of the change of control of a corporation", it said.

Two bills, one in the state's Senate and one in the House, were passed but the legislature went into recess last month and neither bill was enacted.

AMP said it would instead focus on its profit improvement plan and continue to fend off hostile bid from the diversified US manufacturing company, to buy AMP at $44.5 per share.

Canadian exchanges aim to restore the faith

Efforts to repair the damage done by recent scandals may hurt smaller companies, writes **Edward Alden**

On May 8 1987, the Vancouver Stock Exchange, a regional exchange catering largely to speculative junior mining stocks, hit an all-time high of more than 2,000 points.

After more than 10 years of the greatest bull market in North America, the VSE composite index this year dipped below 400.

The reasons for the VSE's collapse – competition from other exchanges and a history of ignoring fraudulent market schemes – tell a cautionary tale for the Toronto Stock Exchange, Canada's biggest and the world's 10th largest.

Since the spectacular collapse of Bre-X Minerals, the C$6bn (US$3.9bn) TSE-listed gold company exposed as a fraud last year, the TSE and the Ontario Securities Commission, the exchange's regulator, have been struggling to restore the image of Canada's equity markets.

While Bre-X got most of the headlines, it was only one of several dodgy companies that have briefly flourished on Canadian exchanges.

Others include the Alberta-listed junior mining companies Timbuktu and Cartaway Resources, which collapsed in 1996 after their stock prices were boosted on inflated claims of exploration results, and magnet maker YBM Magnex International, which has been suspended on the TSE since May when its US headquarters were raided by the FBI.

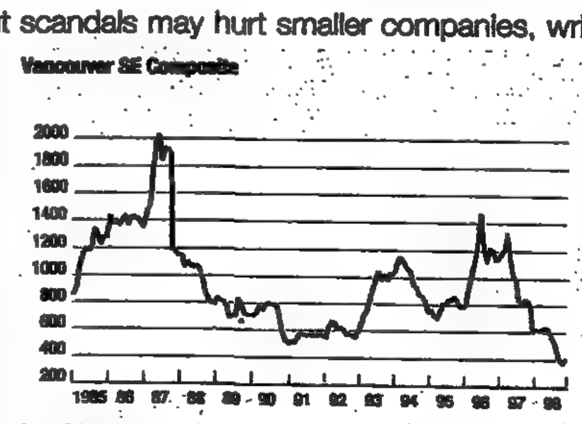
The Vancouver Stock Exchange, which has done much to clean up fraud problems, was tagged "the scam capital of the world" by Forbes magazine in 1989 over its history of stock manipulation by insiders playing in thinly traded issues. It has never lost that tag.

The TSE is determined to avoid a similar fate, and last week announced tougher listing requirements, sharply raising the thresholds for working capital, assets, earnings, cash flow and initial share distributions.

The exchange introduced new standards for mining companies this year, such as requiring independent verification of drilling results. The TSE provides 43 per cent of global financing for mining activities, and the sector is seen as the exchange's strongest competitive advantage.

In addition, the Ontario Securities Commission has promised to beef up regulatory control. The OSC recently became a self-funding agency, allowing it to raise salaries and add staff for compliance monitoring and enforcement. It has also asked the provincial government for authority to ban securities law violators from continuing as directors or officers of a company, and to require violators to pay the costs of an investigation.

David Brown, the OSC's chairman, said last week the commission planned to be "proactive, to identify problems and issues early before they become crises".



Canada remains the only significant industrial country to regulate stocks on a regional rather than a national basis, but its provincial regulators are co-operating in what they term a "virtual national securities commission". Under the scheme, regulators in one province will agree to rely on regulators in another province for filings made in more than one jurisdiction. This should streamline the process for companies and allow regulators to devote greater effort to each review, says Mr Brown.

While these initiatives should begin to boost the reputation of Canadian equity markets, there are many critics. Smaller companies say the new regulations are onerous and will prevent many fledgling but legitimate businesses from raising capital. "Bre-X mortified them," says one broker critical of the TSE's initiatives. "A big company commits fraud and they decide to shoot all the small companies. It's really optics."

John Tognetti, president of Haywood Securities in Vancouver, says new regulatory burdens on the Vancouver exchange have hurt its ability to raise capital quickly for small companies, many of whom have opted for the Alberta and Toronto exchanges.

John Woods, editor of Canada Stockwatch in Vancouver and a critic of lax securities regulation, agrees that small companies are facing the brunt of the crackdown. The VSE, he says, has approached the exercise "from a public relations point of view, by levying a great number of small punishments on small players".

The reform initiatives may also do little to crack down on the genuine abusers. One former OSC official says that a "*virtual national* securities commission" *simply* means that "the guys who want to screw the system will file in the most user-friendly jurisdiction".

At the same time, companies caught in enforcement actions will continue to be caught between the often conflicting demands of different regulators.

The best hope for improvement in Canadian securities regulation may be that the costs of getting it wrong are so high. With growing competition from US exchanges and the pending introduction of alternative trading systems, Canadian regulators are acutely aware that Canada's exchanges cannot afford any more high-profile disasters like Bre-X and YBM.

As Mr Brown said last week, the OSC is striving to "be known as the regulator that creates and aggressively enforces clear and unambiguous rules to protect investors while at the same time ensuring efficient capital markets for compliant users".

A companion piece analysing the Canadian exchanges' attempts to halt the erosion of liquidity and the migration of Canadian companies to US listings appeared on Nov 6.

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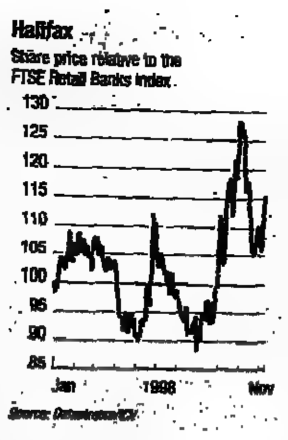
COMMENT

Halifax



Halifax, it seems, is profligate with its affections. There is barely a financial services company in the UK with whom it has not been linked. Currently in the frame are Barclays and Prudential. There is one snag with this latest bout of speculation: it is far too soon for new man James Crosby to be throwing his weight around. Indeed, he only succeeds Mike Blackburn as chief executive in January. But with this much smoke around, there must be some fire. And it is not just the fact that Halifax has £4bn of surplus capital burning a hole in its back pocket. Rather, it is the belief that the bank in its current form has very subdued growth prospects.

Halifax bosses could be forgiven an ironic smile. Since the mid-summer panic in financial markets, it has comfortably outperformed its peers. But this cannot disguise its strategic dilemma: 77 per cent of its earnings come from core mortgage and savings businesses. Here the outlook is not good. Growth in the mortgages markets is about 6 per cent a year, and new entrants are grabbing market share. Worse, new technology is driving margins down. Earnings diversification has also been slow, with Abbey National a reminder that progress does not come quickly.

That is the rationale for a deal. But what sort? A bank merger has the advantage that it could deliver concrete and substantial cost-savings. The likes of Barclays or NatWest might like the idea of low-risk retail assets on their balance sheet. But they would surely baulk at Halifax's cost structure. And yo-yo movements in share prices are not a suitable backdrop to mergers of equals.

A deal with a life-insurer appeals to demographic trends favouring growth in long-term savings products. But it would not offer sure savings. Would investors really value a deal which promised to deliver revenue synergies, based on cross-selling? The track-record is not good. Indeed, the trend towards speciality, low-cost providers encourages customers to mix and match financial products – the very opposite of the *bancassurance* concept.

Mr Crosby's challenge is to find a way out of this snooker. At the least, gingering up Halifax's subdued growth prospects will require innovative new products, and leaner costs. Without early progress, he will quickly have to explain why new, outside management is not part of the solution too.

Axis secures US deal for edible vaccine

By Clive Cookson

The development of edible vaccines to replace injections takes a step forward today, with the announcement of the first manufacturing agreement for "pharmaceutical potatoes".

Axis Genetics, a private UK company, has commissioned American Ag-Tec International to grow potatoes containing hepatitis B vaccine for clinical trials are due to start next year. At the same time, Axis has signed a research agreement with Roswell Park Cancer Institute in New York to continue development work on the hepatitis vaccine.

The trials will start with volunteers eating bite-sized pieces of raw potato, genetically engineered to make hepatitis B antigens. These stimulate the human immune system to resist infection by the virus, which is a leading cause of liver disease and cancer.

Later, Axis will use food processing technologies to convert the antigen-laden potato into a more palatable form for consumption.

Iain Cubitt, chief executive of the Cambridge-based company, said: "By investing now, we will ensure compliance with production protocols demanded by regulatory authorities," he said. "We want to ensure that no procedure in the development chain holds back the commercialisation of these novel vaccines."

The agreement with Axis is the first venture into the pharmaceutical sector by American Ag-Tec, a private biotechnology company based in Wisconsin. "It will raise the importance of the lowly potato by a quantum leap," said Robert G Britt, president.

Besides hepatitis B, Axis and its partners are developing edible plant vaccines against several infections that enter the body through the stomach and gut.

Edible vaccines will be cheaper to manufacture than conventional ones made by microbes in fermenters, Dr Cubitt predicts. "We should be able to get a million doses from 10 acres of potatoes."

BP to spend $850m on plants

By James Buxton in Edinburgh

BP is to invest £500m ($845m) in upgrading the competitiveness of its petrochemical manufacturing operation in the UK, concentrating its spending at Grangemouth in eastern Scotland and Hull in north-east England.

New chemical plants will be built at both sites and a gas-fired combined heat and power plant will be constructed at Grangemouth, following approval from the government last week. An existing ethylene pipeline from Grangemouth to Teesside will be extended by 150km to Hull.

Although some additional manufacturing capacity will be created, the investment is intended primarily to improve the performance of BP's existing petrochemical operation in Europe. Older plant at Baglan Bay in South Wales will close after the new facilities in Hull and Grangemouth come on stream.

Bryan Sanderson, chief executive of BP Chemicals, said the investment would increase the subsidiary's earnings by £85m a year at the mid-point of the seven year chemical cycle.

Mike Buzzacott, chief executive of BP Chemicals' polymers and olefins business, said: "The focus is on reducing variable costs by bringing in more efficient plant and on cutting fixed costs by focusing on fewer sites."

Ethylene capacity at Grangemouth will be raised to more than 1m tonnes annually. BP is already constructing two new polymer plants at the complex to utilise the output. It said yesterday it would also build a 110,000 tonnes a year ethanol plant at the site.

The combined heat and power plant will produce 230 tonnes of steam an hour and 130 MW of electricity to support the new plants. The £100m plant will be built, owned and operated by a 75-25 per cent joint venture between IVO of Finland and Mitsubishi of Japan, and use feedstock from the Central Graben area of the North Sea. It will come into operation in the fourth quarter of 2000.

At Hull BP is to build a 250,000 tonnes a year vinyl acetate monomer (VAM) plant using a new proprietary technology it has developed, as well as a 220,000 tonnes a year ethyl acetate plant. The investment at Hull will coincide with the end of an agreement with Enichem of Italy for VAM production at Port Marghera near Venice.

Mr Buzzacott said that chemicals would still make up about 12-13 per cent of BP's assets when the investment was complete in 2002.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Autonomy ☓	9 mths to Sept 30	3.51	(1)	1.24L	(0.773L)	3.79L†	(2.78L)	-	-	-	-	-
British Airways	6 mths to Sept 30	4,728	(4,480)	385	(430)	33.2†	(31)	5.1	April 7	4.7	-	16.6
Carr's Milling	Yr to Aug 29	97.1	(101)	1.84L♠	(3.65)	17.8L	(30.8)	2	Jan 25	8.5	5	11.5
Dragons Health ϕ	Yr to Jul 31	7.38	(4.1)	1.02	(0.606)	9.6†	(8.8)	1.95	Jan 21	-	2.9	2.64☆
DCC ♣	6 mths to Sept 30	[illegible]	(307.2)	16.8	(12.9)	15.74†	(12.02)	4.25	Nov 27	3.52	-	[illegible]
Hill Hire	6 mths to Sept 30	15.6	(12.2)	2.61	(2.15)	7.44†	(6.29)	1.6	Jan 29	[illegible]	-	4.4
MFF	6 mths to Sept 30	16.9	(16.9)	0.888♥	(0.509)	1.45	(0.83)	0.16	Dec 14	0.1	-	0.3
Pacific Media ϕ	6 mths to Jun 30	1	(1.88)	0.184	(0.889L)	0.01	(0.07L)	-	-	-	-	-
Personal No Co ϕ	6 mths to Sept 30	1.45	(1.22)	0.168L	(0.227L)	1.05L	(1.47L)	-	-	-	-	-
Robert Wiseman	6 mths to Oct 3	118.5	(125.2)	8.18	(8.65)	7.64†	(7.32)	1.4	Feb 18	1.32	-	4.03
Safeland	6 mths to Sept 30	20.9	(32.1)	0.852	(2.29)	1.92	(4.57)	0.5	[illegible]	1	-	1.04

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Framlington Income	6 mths to Sept 30	187.4	(219.9)	0.551	(1.28)	2.43	(3.28)	1●	Jan 12	1	-	5.30

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ϕAim stock. ☆Pro forma. ♣Irish currency. ●Second interim. ☓Easdaq stock.

NEWS DIGEST

PROPERTY

Hammerson to sell Canadian portfolio

Hammerson, the UK's fourth-largest property company, is selling its entire Canadian portfolio in a deal that will bring net proceeds of C$600m ($400m) after repayment of debt and taxes.

Ron Spinney, chief executive, said Hammerson had decided its Canadian business, which includes one of the country's largest shopping centres at Mississaugua, Ontario, was not large enough to have critical mass in the North American market. Proceeds of the sale to OMERS Realty, a subsidiary of the Ontario Municipal Employees Retirement System, will be reinvested in the UK and continental Europe.

Mr Spinney also said that Hammerson, one of the few UK property companies that invests abroad, would keep its German interests under review. "I am convinced that French retail is where we want to be," he said. "As far as Germany is concerned, some growth is likely to come through, but how far, I am not sure. As far as I am concerned, the jury is still out."

The full price paid by OMERS Realty Corp was not disclosed. However, Hammerson said the effect of the sale would slightly reduce its 1998 year-end net asset value. Analysts at Charterhouse Tilney, the broker, estimate that the sale will reduce year-end NAV by about 4p a share. The broker estimates C$118m has been used to repay debt, C$38m to cover tax liabilities and C$38m to cover pre-payment penalties on higher coupon Canadian dollar-denominated debt.

The Canadian assets include three big shopping centres and three office buildings in Ontario with more than 3.1m sq ft of space. The assets generated net rental income of C$26.7m in the first half of 1998.

• Hammerson was advised by JP Morgan, the US investment bank. **Norma Cohen**

DISTRIBUTORS

Premier Farnell strengthens team

John Hirst, the chief executive brought in to shake up Premier Farnell, the electronic components distributor, yesterday strengthened his management team with two board appointments. But Mr Hirst has yet to make his key appointment – a new head for Newark, the North American catalogue operation.

The group said the search for a suitable candidate was continuing and it hoped to be able to make an announcement before the end of the year.

Premier Farnell yesterday appointed Michael Bell, formerly of Forte and United Distillers, as group director for IT, while Angela Walker, currently head of ICI's Autocolor business in Latin America, is to take up the newly created post of marketing director with a strategic planning remit.

The group also announced the appointment of Peter Costello as head of its industrial products division in North America. Mr Costello – who replaces the departing Terry Taylor – will combine this role with that of chief executive of the product manufacturing division. **Susanna Voyle**

TRANSPORT

P&O buys 32% of Italian port

Peninsular and Oriental Steam Navigation has expanded its European port interests by purchasing a 32 per cent stake in Porto Industriali di Cagliari, which holds a 30-year concession to operate a container port at Cagliari, Sardinia. The deal is P&O's second in continental Europe since it divided its port division into regional units at the end of last year, a move designed to promote diversification away from its concentration on Asia. Earlier this year, the group signed a 48-year concession to build and operate a $280m terminal in Turkey.

The recently completed Cagliari terminal handled its first ship in August. P&O said the facility had the potential to become the leading trans-shipment port in the central Mediterranean. It was built by the Italian government, which has invested $750m. Other shareholders in the concession include Grupo Investimenti Portuali, an Italian group that operates a container terminal at Genoa.

P&O did not disclose the terms of the deal. Separately, it signed an agreement with the concession to manage the Cagliari terminal.

P&O's ports division is part of P&O Australia and accounted last year for about a third of the subsidiary's turnover of €739m. **Jonathan Ford**

LEGAL SERVICES WORLDWIDE

Transatlantic profits gap begins to narrow

British firms may be well-placed to cash in on the euro-zone, writes **Robert Rice**, but their US counterparts have advantages *that mean they cannot be written off in the global race*

Who is winning the race for global legal services, the Americans or the British?

According to a survey by The American Lawyer magazine, US firms lead in both revenues and profitability but the British lead on size and global reach.

Not much change there. The Americans, with their huge domestic markets, proximity to the ever more powerful US investment banks and dedication to the bottom line, have continued to make money without having to venture too far from home. The British, with their smaller domestic markets and slightly less hard-nosed approach to the practice of law, have had to look further afield for earnings growth.

However, statistics put together by the magazine and its British counterpart, Legal Business, suggest that the profitability gap between the top US and UK firms, always seen as the main obstacle to transatlantic mergers and the establishment of truly global law firms, is narrowing.

The American Lawyer says that five years ago the average profits per partner at New York's five highest earning firms was 1.8 times that of London's top five. But in the most recent fiscal year that gap had closed to 1.3. What is more, the average profit increases at the London firms have outpaced those in New York by 82 per cent to 31 per cent. For the first time a London firm features in the top 10 most profitable law firms in the world, and six London firms feature in the top 25 (see table).

In terms of size only four of the world's 10 largest law firms are American and only one, Skadden Arps, is headquartered in New York. With 2,300 lawyers Baker & McKenzie remains easily the world's largest law firm although the UK's Clifford Chance, with almost 1,800, is closing fast.

The figures relating to numbers of lawyers based overseas suggest the UK firms have stolen a march on their American cousins in the international arena. Baker & McKenzie, with 80 per cent of its lawyers based overseas, is the most international law firm. But almost 50 per cent of Clifford Chance's lawyers are now overseas, Freshfields has more than 40 per cent of its lawyers based abroad and Allen & Overy and Linklaters more than 30 per cent.

None of the top five US firms has anything like that number of lawyers based overseas. Apart from Baker & McKenzie, White & Case, Cleary Gottlieb and Shearman & Sterling, no big US firm comes close to matching the international spread of the leading UK firms.

All of which suggests that having already borne the heavy costs of international expansion and still closed the profitability gap, the British firms are well-placed to win the race for global legal services.

However, the bald statistics ignore a couple of factors. The first is that irrespective of how many lawyers they have based overseas, the top US firms, with their proximity to the US investment banks and powerful US multinationals, derive a considerable proportion of their revenue from work generated outside the US. Just because they do not have offices all over the globe does not mean they are not global in reach. Sullivan & Cromwell, for example, draws half its clients from outside the US.

The second is that several of the markets where the British firms have been busy making money in recent years are mired in recession, noticeably Asia and Russia. With the UK economy slowing and possibly tipping into recession next year, the picture suddenly does not look quite so rosy for the leading UK firms.

There will be plenty of corporate restructuring, debt rescheduling and mergers and acquisitions work to keep them busy in Asia when the economies start to turn the corner and international capital flows return. But as Paul Monk, managing partner of Allen & Overy's Asian operations, says, none of this really compensates for the fall-off in capital markets work. "It is very difficult to replace heavyweight new issues work," he says. Asia is not a cheap place in which to operate, either.

All is not lost, however. With the euro-zone, a market of 290m people, about to become a reality on January 1, most of the UK's leading international law firms are hurriedly focusing their efforts closer to home and it is in Europe that the battle for dominance of global legal services is likely to be won or lost.

Building pan-European practices to cash in on the cross-border work and fundraising expected to flow from economic and monetary union has become the number one priority

For the leading UK law firms, building pan-European practices to cash in on the welter of cross-border work and fundraising expected to flow from economic and monetary union has become the number one priority.

Clifford Chance and Freshfields have been building strong pan-European practices for more than a decade. But Freshfields' "alliance" with Germany's Deringer Tessin earlier this year marked the beginning of a new phase of consolidation in European legal services as law firms hustle to provide the seamless, "one-stop shop" service their clients increasingly demand.

Running in parallel with the Freshfields/Deringer talks last year were Linklaters' negotiations with the Alliance of European Lawyers which resulted in the formation of Linklaters & Alliance in July.

Since then both firms have strengthened their arrangements. Linklaters has hired a four-strong mergers and acquisitions team from French firm Gide Loyrette Nouel, adding much needed corporate strength to its already robust finance practice in Paris. Its negotiations with Chiomenti in Italy continue. Freshfields Deringer has just extended its arrangement by associating with Wolf Theiss, one of the leading Austrian firms, giving it an integrated service across all the main German-speaking markets.

Allen & Overy has long-term alliances with Gide and the Dutch law firm Loeff Claeys Verbeke Baruma and has recently merged with Brosio Casati in Italy. Allen & Overy is in the process of running down its association with Gide but hopes to strike a deal with De Pardieu Brocas Maffei in France before the end of the year. It is also eyeing an association or merger in Germany with either Bruckhaus Westrick Heller Löber or Pünder Volhard Weber & Axster.

Clifford Chance, with more than 500 lawyers already based in continental Europe, expects to double numbers within two years, something that cannot realistically be achieved without merger. And there are others. Lovell White Durrant is looking for an association or merger in Germany, and Cameron McKenna, itself the product of a domestic merger recently in the search for growth, expects to announce a Linklaters-type alliance of its own with several European law firms shortly.

The received wisdom therefore, set out in The American Lawyer and elsewhere, is that the American firms have missed the boat in Europe: once sizeable euro capital markets develop, and the need to tap the US capital markets because of their greater liquidity diminishes, the failure of the US firms to think more strategically and act sooner in Europe – with a few notable exceptions – will be cruelly exposed.

There may be a measure of truth in this, but it is nonetheless an exaggeration. First, just because the UK firms have built these associations does not mean they will work in practice. There are huge cultural problems to manage and significant differences in profitability to be addressed. Freshfields/Deringer can testify to the difficulty of making such associations work on a practical level, let alone carrying them through to full merger.

Second, while the US capital markets may eventually become less important in Europe, it will not happen overnight. The establishment of sizeable euro capital markets to rival them will take time. For the foreseeable future the US capital markets are going to be central to the restructuring of European business within the euro-zone, which means that the US law firms which have to date secured the lion's share of the European privatisation work will continue to prosper.

The UK firms talk of the US investment banks being as much European institutions as they are American these days and of their close working relationships with them. But their relative lack of US securities law expertise represents a sizeable hole in their pan-European strategies.

Strength and depth in US securities law are crucial to the banks and are likely to remain important indefinitely. Unless and until the UK firms resolve that problem, their American cousins will continue to give them a run for their money in their own backyard.

Closing the gap

Rank	Firm	Profits per partner ($000)	Lawyers
1	Wachtell, Lipton	2,200	150
2	Cravath, Swaine	1,790	356
3	Sullivan and Cromwell	1,450	405
4	Cahill Gordon	1,445	211
5	Davis Polk	1,295	485
6	Skadden, Arps	1,290	1,126
7	Simpson Thacher	1,265	494
8	Debevoise and Plimpton	1,185	384
9	Cleary, Gottlieb	1,080	572
10	Slaughter & May*	1,045	569
11	Allen and Overy*	1,030	826
12	Robins, Kaplan	1,010	224
13	Kirkland and Ellis	975	546
14	Shearman and Sterling	920	605
15	Willkie Farr	900	461
16	Freshfields*	870	932
17	Paul, Weiss	865	402
18	Milbank, Tweed	860	383
19	Latham and Watkins	825	838
20	Weil, Gotshal	805	661
21	Linklaters and Paines*	800	1,028
22	Clifford Chance*	800	1,626
23	Cadwalader, Wickersham	795	349
24	Herbert Smith*	790	616
25	Dewey Ballantine	780	400

Source: The American Lawyer * UK firms

Based on the Am Law 100 and Legal Business 100. Figures are for most recent fiscal year. UK profits were converted at prevailing exchange rate

Ruling says where the rot sets in

European court

An action brought by the buyer of a damaged consignment of fruit against the carrier of the goods was not an action for breach of contract but an action for negligence or tort within the meaning of the Brussels Convention, the European Court of Justice ruled recently.

The case arose out of proceedings brought by nine insurance companies led by Réunion Européenne over a damaged cargo of pears from Australia received by the insured, Brambi Fruits, a French company.

The insurers attempted to sue the Australian company which issued the bill of lading, the Dutch company which carried the fruit, although it was not named in the bill of lading, and the master of the ship. The fruit had ripened prematurely because the ship's cooling system failed.

The French court said it had jurisdiction in respect of the Australian shipper but declined jurisdiction over the Dutch carrier and the master. The Paris Court of Appeal confirmed that decision, but the Court of Cassation stayed proceedings pending a ruling from Luxembourg on the Brussels Convention which covers jurisdiction and the recognition and enforcement of civil and commercial judgments in the European Union.

The Dutch carrier and the master argued that the dispute was a "matter relating to a contract" under the Convention because it was based on the bill of lading.

The Court said the phrase was to be interpreted independently and could not be taken to refer to how the legal relationship in question was classified by the relevant national law.

Under the Convention the general principle was that the courts of the state in which the defendant was domiciled would have jurisdiction and it was only by way of derogation from that principle in certain cases that a defendant might or must be sued elsewhere.

The Court said the bill of lading did not disclose any contractual relationship between Brambi and the Dutch carrier and the master. The action against them was not therefore a "matter relating to a contract" within the meaning of the Convention.

However, the action was a matter relating to tort within the meaning of the Convention. Therefore the carrier and the master could be sued in the courts of either the place where the damage occurred or the place where the event giving rise to the damage occurred.

Referring to its earlier case law the Court said the "place where the event giving rise to the damage occurred" could not be construed so extensively as to include any place where the adverse consequences could be felt of an event which had already caused damage which had actually occurred elsewhere.

In cases such as this involving international transport, the place where the damage occurred could only be the place where the carrier was to deliver the goods, it said. Accordingly, the place where the buyer of the goods merely discovered the existence of the damage could not serve to determine the place where the harmful event occurred within the meaning of the Convention.

C-51/97 Réunion Européenne and others v Spliethoff's Bevrachtingskantoor and the Master of the vessel Alblasgracht, ECJ 5CH, October 27 1998.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE ON THE MOVE

Loach to head Electronic Message Exchange

Paul Loach, who quit in June as chief executive of LGT Asset Management after the Liechtenstein royal family sold it to Atlanta-based Amvescap for $1.1bn, is to head a new company set up to run electronic trading in unit trusts, the UK equivalent of mutual funds.

Loach will be interim chairman of Electronic Message Exchange (EMX), founded by fund managers Gartmore, Perpetual, M&G and Fidelity. But his first task is to structure the company so it benefits the industry, not just the initial partners.

"The service is for the whole industry but companies that are prepared to put up capital to get this programme under way have every right to some kind of payback, whether in financial or service terms," he says.

"Similarly, the less efficient should not expect a ride on the back of their more efficient counterparts."

EMX plans to let independent financial advisers deal in unit trusts over a secure internet connection, cutting the costs of dealing, settlement and valuation. Under existing procedures these involve large amounts of paper passing to and fro in the post.

Software standards for dealing have already been established by Autif, the unit trust trade body, but no software links between the diverse systems used by fund managers and those used by independent advisers have yet been built. EMX plans to introduce electronic trading in the first half of next year, but expects only the larger fund managers to be involved at first.

There are no plans to make the system available to the public, although Autif believes that will happen eventually.

In the US, fund "warehouses" – which give retail investors access over the internet to thousands of funds – have proved popular.

James Mackintosh, London

Hedberg quits Swisscom

Swisscom, Switzerland's national telecoms company, has proved it is not immune to the rapid turnover in top personnel that has plagued some of its bigger competitors.

Jeff Hedberg, 36, head of Swisscom International, has decided to leave the company little more than a month after its successful stock market debut.

Hedberg, a former US management consultant, is the youngest member of Swisscom's top management and one of a new breed of managers brought in to transform the fortunes of Switzerland's bureaucratic state-owned telephone company ahead of privatisation.

Swisscom faces increasing competition in its domestic market and is relying on its international expansion to provide much of its long-term growth.

There has been speculation in the German media that Hedberg was leaving Swisscom to join Deutsche Telekom, which has been looking for a new chief for its troubled international business following the departure of Erik Jan Nederkoorn nearly a year ago.

Hedberg's role at Swisscom will be filled by **Lorne Summerville**, 35, a Briton who joined Swisscom last year from Value Management Group in Nyon, Switzerland.

However, unlike his predecessor, Somerville will not be a member of the executive board but will report to Dominik Koechlin, 39, Swisscom's head of corporate development.

Meanwhile, Swisscom has lost another of its senior managers. **Peter Rudin**, who had built up Blue Window, Swisscom's successful internet service provider, has left the company after a disagreement over strategy.

William Hall, Zurich

Mitchell advises Unilever

Unilever, the Anglo-Dutch consumer products group, has appointed **George Mitchell**, a former US senator, as an advisory director, which is the Dutch equivalent of a non-executive director.

Mitchell, a former US federal judge, served in the US Senate from 1980 to 1995, acting as Senate majority leader during his final six years.

On leaving the Senate, Mitchell joined the Washington DC law firm of Verner, Liipfert, Bernhard, McPherson and Hand. He serves as a director of Walt Disney, Federal Express, Xerox, Staples, and UNUM Insurance Corporation. For the past two years Mitchell has chaired the Northern Ireland Peace Initiative.

Unilever advisory directors are the principal external presence in the governance of Unilever.

The company also announced that **Patrick Cescau** is to succeed Hans Eggerstedt as finance director and member of the executive committee.

Cescau, who has been with Unilever since 1973, is currently group financial controller, based in London. He started his career in Unilever France before moving to Germany to become chief accountant of Unilever's German foods business.

From 1986 to 1989 he was commercial director of P.T. Unilever Indonesia and from 1989 to 1991 he was national manager of Unilever in Portugal. In 1991 he returned to Indonesia as chairman, a position he held until 1995. He became president of Lipton, Unilever's combined food business in the US, formed in 1997.

Moving places

● **Kim Dong-soo** has been appointed president of DuPont Asia Pacific, based in Tokyo. He succeeds Thomas Humphrey who has returned to the US to become global president of DuPont's nutrition and health business. Dong-soo, the first local president from the Asia-Pacific region, will also be director of operations in Asia Pacific. He will retain his current responsibilities as vice-president and general manager of DuPont and chairman of DuPont Korea.

● **Arthur Hawkins** has resigned as chairman of Exide and will become chairman emeritus. **Douglas Pearson** has resigned as executive vice-president, president of North American operations and director, but will remain a consultant. The company said it had not been satisfied with its performance and recognised the need for a new operating team. Exide's executive committee will assume day-to-day responsibilities. The board has hired an executive search firm to help find a chief executive.

● **Gerhardt Sundt** has been appointed a European director of Arthur D. Little, the consultancy. He will be in charge of telecoms, information technology, media and electronics in Germany. Sundt was latterly management board spokesman at Deutsche Telekom Systemloesungen.

● The Thomson Corporation has announced a streamlined management structure, including the promotion of **David Shaffer**, executive vice-president and a member of Thomson's board of directors, to the new position of chief operating officer. Shaffer was president and chief executive of the former TCPI.

● **Louis Giuliano**, senior vice-president of ITT Industries, has been appointed to the new position of president and chief operating officer of the corporation. Giuliano will manage all operational activities for the $4.4bn engineering and manufacturing company. **Heidi Kunz**, senior vice-president and chief financial officer, becomes executive vice-president and chief financial officer, and **Richard Labrecque**, senior vice-president of ITT Industries, becomes executive vice-president of ITT Industries.

● Inkombank chairman **Vladimir Vinogradov** has officially resigned and has been replaced by **Boris Zenkov**, the bank's first vice-president. Inkombank, Russia's second-largest bank, has about 10,000 corporate and private shareholders, including RAO Gazprom, several metallurgical firms, oil exporter Nafta Moskva and the European Bank for Reconstruction and Development. The Central Bank placed Inkombank under its control in September, when the rouble was collapsing and the government froze the domestic bond market.

● Philipp Holzmann, Frankfurt, the German construction giant, has commissioned an international construction expert with the management of its international business. The assignment of **Gene McGovern** as chairman of Philipp Holzman International emphasises the company's realignment and its emphasis on international expansion.

● Advanced Micro Devices has named **S. Atiq Raza** co-chief operating officer. Raza will share the post with Richard Previte, president and chief operating officer. Raza, 49, is currently executive vice-president, chief technical officer, and a member of the board at Advanced Micro.

● **Gary Cowger**, chairman and managing director of General Motors subsidiary Adam Opel in Germany has been appointed a vice-president and group executive – labour relations for GM.

● Salomon Smith Barney's managing director **Wilder Fulford** has joined the European M&A group in London from the firm's New York team.

● **Johan Denekamp** has been appointed general manager and chief financial officer for international operations of The Media Edge. He was previously European chief operating officer of CIA, now renamed Tempus Group.

مكرر من الأصل

EURO PRICES

EQUITIES

Merger fails to ignite bourses

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

The chemicals sector set the pace in Europe after Ciba Specialty Chemicals and Clariant agreed to merge, prompting speculation about a further round of restructuring in the industry.

But neither the strength of the sector nor a rise in the dollar against the D-Mark, normally a lift to exporting stocks, managed to do much for the overall markets across Europe.

The FTSE Eurotop 100 index fell 7.39 or 0.3 per cent to 2,493.13 while the broader Eurotop 300 index dropped 2.72 to 1,084.81. The FTSE Ebloc 100 index, comprising stocks in countries which plan to be part of the single currency, slipped 5.74 or 0.6 per cent to 903.07.

The chemicals sector gained 0.4 per cent, with Ciba Speciality up Ecu 10.4 to Ecu 89.07. Hoechst, which has a 45 per cent stake in merger partner Clariant, fell Ecu 0.3 to Ecu 37.41.

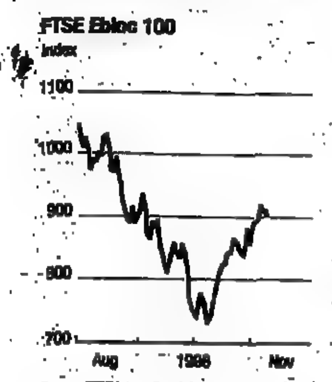
Water was the best performing sector, trickling 3.1 per cent higher, as the UK stocks rebounded after the battering they took following the latest regulatory review. Severn Trent was up Ecu 0.6 at Ecu 14.72 and Thames Ecu 0.5 to Ecu 16.09.

The telecoms sector stood up well to the announcement of the France Telecom sale, rising 0.1 per cent on the day. The French group gained Ecu 0.2 to Ecu 56.15; Deutsche Telekom was up Ecu 0.5 at Ecu 23.92.

A shift in sector strategy was unveiled by Salomon Smith Barney. "Equities still look cheap relative to bonds, both on a conventional yield ratio and a risk premium basis. But the extraordinary valuation gap we have highlighted over the past few weeks has begun to close. European equities are still a buy, but no longer a screaming buy," says Mark Howdle, European strategist.

"However, as our appetite for risk increases, we will continue to relax our defensive strategy. We remain overweight in sectors with limited earnings downside, such as insurance and pharmaceuticals, and we are resisting the temptation to pile into cyclicals. However, we are restoring banks to overweight, as the best sector play on a recovering market, and raising media to overweight as well, while downgrading telecoms and utilities to neutral."

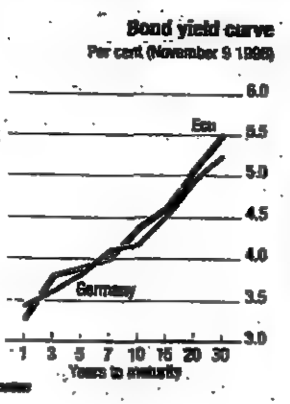
FTSE Ebloc 100



Source: FTSE International, Interactive Data/FT Information

Bond yield curve

Per cent (November 9 1998)



FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Nov 9 Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Ecu)
FTSE Eurotop 300	1084.81	-0.25	-2.72	2.54	30.01	1121.85
FTSE Eurotop 100	2493.13	-0.30	-7.39	2.56	37.56	892.80
FTSE Ebloc 100	903.07	-0.63	-5.74	2.35	14.33	915.95

FTSE Eurotop 300 Regions; FTSE Eurotop Industry Sectors: [illegible]

THREE MONTH EURO FUTURES (LIFFE)

[illegible]

THREE MONTH EURO OPTIONS (LIFFE)

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

[illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

[illegible]

CURRENCIES & MONEY

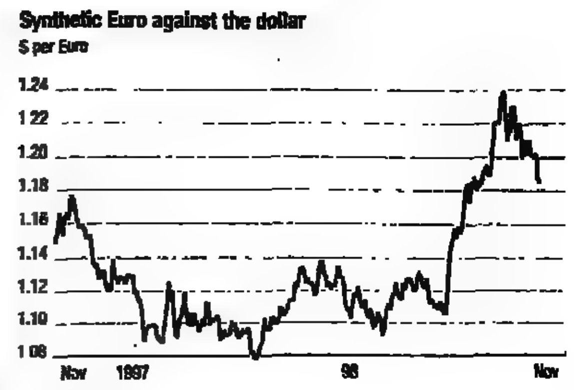
FT SYNTHETIC EURO RATES

Nov 09	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.054225	+0.0013	+0.01	+0.0016	+0.01
Belgium	BEF	41.206091	+0.0023	+0.01	-0.0023	+0.01
Czech Republic	CZK	35.003278	-0.1257	-0.36	+0.1687	+0.48
Denmark	DKK	7.593474	-0.0002	+0.00	-0.0002	+0.00
Finland	FIM	6.073785	+0.0008	+0.01	-0.0012	-0.02
France	FRF	6.696434	-0.0010	-0.01	-0.0012	-0.02
Germany	DEM	1.997568	+0.0001	+0.01	+0.0001	+0.01
Greece	GRD	336.820180	+1.8647	+0.56	[illegible]	-0.54
Hungary	HUF	256.611790	-1.1013	-0.43	-3.5962	-1.38
Ireland	IEP	0.802656	+0.0001	+0.02	+0.0001	+0.01
Italy	ITL	1976.264718	+0.7829	+0.04	+0.2919	+0.01
Luxembourg	LUF	41.206091	+0.0023	+0.01	+0.0023	+0.01
Netherlands	NLG	2.252071	-0.0004	-0.02	-0.0002	-0.01
Norway	NOK	8.834273	-0.0367	-0.41	-0.0254	-0.29
Poland	PLN	4.062906	-0.0500	-1.21	-0.0715	-1.73
Portugal	PTE	204.805281	[illegible]	+0.01	+0.0234	+0.01
Romania	ROL	11683.542598	-152.4894	-1.29	[illegible]	-0.82
Russia	RUB	18.880700	-0.2853	-1.49	-0.8430	-4.27
Slovakia	SKK	42.680505	-0.1187	-0.28	+0.3147	+0.74
Spain	ESP	168.719141	-0.1189	-0.07	-0.0259	-0.02
Sweden	SEK	9.356659	-0.0262	-0.28	-0.0369	-0.39
Switzerland	CHF	1.650729	+0.0079	+0.48	+0.0196	+1.20
United Kingdom	GBP	0.719323	-0.0095	-1.31	-0.0122	-1.65
ECU	ECU	1.015988	-0.0008	-0.08	-0.0014	-0.14
Americas						
Brazil	BRL	[illegible]	-0.0195	-1.36	-0.0354	-2.45
Canada	CAD	1.815743	-0.0221	-1.20	-0.0469	-2.52
Mexico	MXN	11.864063	-0.1390	-1.16	-0.2727	-2.25
United States	USD	1.183743	-0.0179	-1.49	-0.0263	-2.17
Pacific/Middle East/Africa						
Australia	AUD	1.878551	-0.0256	-1.34	-0.0656	-3.38
Hong Kong	HKD	9.163354	[illegible]	-1.51	-0.2046	-2.18
Japan	JPY	143.588016	+1.4235	+1.00	+4.5781	+3.29
Singapore	SGD	1.959213	-0.0085	-0.43	-0.0059	-0.30
South Africa	ZAR	6.593446	+0.0025	+0.04	-0.2191	-3.22

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying EDF weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1623, NLG 0.0577, BEF 0.0386, ESP 0.0846, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 09	Fixed rate	Market rate	Diff fixd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0357	+0.00	+0.00	[illegible]	3.59	+0.00
Belgium	20.6255	20.6281	[illegible]	+0.01	20.6258	3.51	-0.08
France	3.35386	3.3523	-0.05	-0.02	3.352	3.53	[illegible]
Finland	3.04001	3.0406	[illegible]	+0.05	3.0407	3.61	+0.02
Ireland	0.402676	[illegible]	-0.22	-0.22	0.4019	3.77	+0.18
Italy	990.002	989.3363	-0.07	-0.07	990.3673	4.33	+0.74
Luxembourg	20.6255	20.6281	+0.01	+0.01	20.6258	3.51	-0.08
Netherlands	1.12674	1.1274	+0.08	+0.07	1.1269	3.28	-0.31
Portugal	102.505	102.5274	+0.02	+0.02	102.5291	3.6	+0.01
Spain	85.0722	84.963	-0.13	-0.11	84.9972	3.88	[illegible]
Germany	1		+0.00	+0.00		3.59	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 3/3. Forward rates are exchange rates to 31/12/98 interpolated from market quotes, forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

[illegible]

EUROZONE CORPORATE BONDS

Nov 09	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	108.920	4.43	+0.06	-0.11	+0.06
France (Rep of)	04/08	5.250	AAA	107.400	4.28	-0.01	-0.13	-0.09
Italy (Rep of)	05/08	5.000	AA	104.000	4.48	-0.07	-0.18	+0.11
Portugal (Rep of)	06/08	5.375	AA-	108.220	4.56	[illegible]	-0.06	+0.19

[illegible]

GOVERNMENT BOND SPREADS vs ECU

[illegible]

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

[illegible]

Bank of Tokyo	[illegible]	07/08	7.125	DEM	+2.19	+2.32	+2.39
Natl Bk of Hungary	[illegible]	08/01	9.000	ATS	+1.00	+1.11	+2.02
Korea Dev Bank	BB+	11/02	5.825	FRF	+8.48	+6.30	+7.59
Argentina	BB	04/08	[illegible]	XEU	+5.01	+6.40	+5.66

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

BANKING 'BLIND POOL' SECURITISATION

Commerzbank breaks ground in loan risk

By Clay Harris, Banking Correspondent

Commerzbank has broken new ground by persuading investors to take over the risk on a large portion of its loan portfolio without knowing the identities of any of the borrowers.

The insurance policy on the "blind pool" of assets was disclosed last week by Peter Bürger, head of the German bank's UK branch, at a Foreign Banks and Securities Houses Association conference for general managers.

He said the method could become a useful tool for risk diversification because it allowed banks to lay off exposure without jeopardising relationships with large borrowers, which would never know if their loans were involved. Other bankers said this had been a critical factor holding back the securitisation of loan portfolios in Europe.

The size and terms of the private placement, which took place this year, were not revealed, but Mr Bürger said half of Commerzbank's UK loan book was insured so that the bank "doesn't carry direct risk any more".

Fabio Salvalaggio, Commerzbank's head of securitisation, said the deal had been a "very large transaction" involving assets in other European countries including the UK.

"German banks are obliged not to reveal the name of underlying borrowers," he said. Commerzbank gave assurances to investors that a certain percentage of the loans were rated by credit-rating agencies, and that the agencies had tested and vouched for the bank's own techniques for assessing unrated loans. Investors took on no risk exposure to Commerzbank itself, only to the loans.

Relationships with borrowers were at the forefront of concerns of several bankers at the conference.

Jan Pethick, head of global debt origination at Dresdner Kleinwort Benson, said European banks appeared to be drawing back from ambitious plans for cross-border expansion, in favour of defending their home territory. "Banks have become more security conscious, more franchise-aware."

There were also caveats about the use of credit derivatives to diversify loan portfolio risk. Ron Stanley, European general manager for Royal Bank of Canada, said shifting exposure from direct borrowers to derivatives counter-parties was problematic because there were fewer of the latter.

Angus McLennan, senior executive vice-president of Den Danske Bank, was one of several bankers who noted the danger of relying on derivatives traders whose training and aptitude were in markets rather than in assessing credit risk.

Mr Pethick said some banks were dealing with instruments that were "misused, misunderstood and not stress-tested".

He added: "In many cases, it's a time-bomb ticking for banks which don't fully understand the risk – either legal or systemic – they're taking on."

US rebound lifts European prices

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

European prices ended higher yesterday after a mid-day rebound in US Treasuries invigorated global bonds towards the close of trading.

However, volume was thin, indicating that investors and traders are unsure of the market's near-term direction.

Some analysts say that while the recent recovery in equity prices has sapped safe-haven flows into bonds, there is a chance that equities may be vulnerable if the global economic slowdown hits corporate earnings hard. That could see government bond yields moving lower, they say.

Andy Bevan, senior international bond economist at *Goldman Sachs, said the balance of risks favoured lower yields* because of the scale of the recent interest rate cut-induced correction in bond prices. He forecast that the 10-year US Treasury yield would fall to 4.6 per cent, from about 4.9 per cent.

"Europe is a less exciting story because they never really built in any significant degree of central bank easing," he said.

However, some say a rally is not around the corner as there could be some de-leveraging by hedge funds, which would create uncertainty.

Emerging market bonds were lower and volume was also thin as traders waited for news on a $30-$45bn aid package for Brazil. Venezuelan debt, however, was sharply weaker amid fears that Hugo Chavez, the *former coup leader, was poised* to win presidential elections next month.

US Treasuries rallied in early afternoon trading as equities fell, with traders preparing for the week's bill auction.

The 30-year bond, the benchmark for long-term interest rates, was 1[illegible] higher at 98[illegible], sending the yield down to 5.319 per cent. Among shorter-term issues, the 10-year note was up [illegible] to 98[illegible], yielding 4.886 per cent, and the two-year note had gained [illegible] to 98[illegible], yielding 4.569 per cent.

"I think we reached levels that were too cheap, especially at the short-end of the market," said Marcello Frustaci, senior vice-president and trading manager at Daiwa Securities America. "Last week we had a lot of *corporate deals and that was where the money went.*"

Despite the recent rebound in shares, many analysts continue to expect at least one more interest-rate cut by the end of the year.

UK gilts recovered from early weakness to end the session firmer. The December long gilt future settled up 0.11 points at 113.94 in modest volume of 27,000 contracts traded.

UK producer prices fell 0.2 per cent in October from the previous month, showing price pressure at the factory gate remains subdued and underlining what economists say is a deflationary trend in the UK economy.

The next statistical target for gilts is the Bank of England's inflation report tomorrow. Kevin Adams, gilts strategist at Barclays Capital, said the market would be looking to see where the Bank had "drawn the line" for inflation.

"We're looking pretty tired right here [at these levels]. If we don't get good news out of the report the market will more or less pack its bags for the rest of the year," Mr Adams said.

German bund futures were supported throughout most of the day by weaker stocks. The December 10-year bund future was 0.40 points higher at 111.94 in late trade.

● The Bundesbank and European Central Bank (ECB) policy-making councils will meet on alternate Thursdays once the ECB takes over monetary policy control next year, Reuters reports.

IDB to increase borrowing by $9bn

By Khozem Merchant

The Inter-American Development Bank is to raise an additional $9bn from global capital markets in the next two years to lend to Latin American sovereign casualties of the financial crisis.

Some of the proceeds will contribute to the International Monetary Fund's recently announced $30bn package for Brazil, the most vulnerable Latin American economy.

The IDB will also use some of the funds to co-finance special loans with the World Bank, said Carlos Santistevan, senior deputy finance manager and Treasurer at the IDB.

The bank's planned borrowing of $6bn this year, of which $4bn has already been raised, will remain unchanged. A new $1bn global bond will be launched this week. The mandate for the 10-year global bond has been awarded to J.P. Morgan and Morgan Stanley Dean Witter.

However, next year the bank will increase its planned borrowing from $4bn to $9bn. In 2000, borrowing will rise from an expected $4bn to about $8bn. Borrowing will fall to $4bn-$4.5bn in 2001, said Mr Santistevan.

Loans made from the $9bn of extra borrowings will be of shorter maturity and pay higher interest rates than existing loans.

The new loans are designed to help Latin American economies sustain economic reform programmes threatened by their limited access to global capital markets and the general liquidity contraction. The funds are likely to be disbursed over the next 15-18 months.

Toyota launches global offering

INTERNATIONAL BONDS

By Khozem Merchant

Toyota, the Japanese vehicle maker, yesterday launched a global bond that surprised some European bankers by offering a very generous spread to investors.

The issue was priced to yield 94 basis points over five-year US Treasuries and tightened by about 10 basis points after launch – a measure of "how reasonably, if not cheaply priced it was", said a banker.

A comparable triple A credit from General Electric Capital Corp is trading at 60 basis point over five-year Treasuries.

Toyota's last significant five-year dollar issue in April was priced to yield 32 basis points over Treasuries, a reflection of the dramatic spread widening in the market since then.

"This was a bargain," said one banker. "Issuers are still cautious. They don't want to stuff the market with unwanted deals," he said. US investors took up half the $1bn issue.

Household Finance Corporation, the big US consumer finance group, issued a $1bn bond that was mainly absorbed by US investors. The 10-year issue was priced to yield 157 basis points over 10-year Treasuries, in line with the spread on its outstanding paper.

Bankers said the bond, arranged Morgan Stanley Dean Witter and Merrill Lynch, was helped by the success of the borrower's DM1bn offer last week, one of the first lower-rated offerings in a European currency since the markets crisis.

The Inter-American Development Bank announced the launch of a $1bn bond to be priced today. The 10-year issue is expected to be priced to yield 63-65 basis points over US Treasuries, an enticing pick-up to outstanding IDB paper which is trading at 60 basis points over Treasuries in the secondary market. IDB paper has traditionally traded at a premium to other regional development banks. The bond is being arranged by J.P. Morgan and Morgan Stanley Dean Witter.

France Telecom launched a FFr10bn convertible bond issue arranged by Paribas. The final terms will be announced later this month.

Turkey yesterday announced it was returning to the international capital markets. It has awarded Commerzbank and Deutsche Bank the mandate to arrange its fifth bond issue this year, which bankers say is likely to be for DM300m-DM500m and of a three to five-year maturity.

It would be the first time Turkey has tapped the global capital markets since May, when it shelved plans for a lira issue. Turkey raised $1.9bn in the four months to April this year, before abandoning its borrowing programme because of poor market conditions.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Household Finance Corp	1bn	6.50(a)‡	99.79R	Nov 2008	0.45R	+157(May08)	Merrill/Morgan Stanley
Toyota Motor Credit Corp	1bn	5.625#	99.837R	Nov 2003	0.30R	+94(5%Aug03)	Morgan Stanley/Warburg
Oest Kontrollbank(c)	250	4.625§	99.056	Nov 2003	0.25	+45(4¼Nov03)	CSFB
■ STERLING							
European Inv'ment Bank(b)	100	6.00	101.53	Nov 2004	0.275		HSBC Markets
■ FRENCH FRANCS							
France Telecom(c)§	10bn	(2-2¼)	100.00	Jan 2004	undisc		Paribas
■ YEN							
Nomura Global Funding	70bn	1.50¶	99.99	Nov 2002	0.40		Nomura International
■ SWISS FRANCS							
John Hancock Global Fndg	500	2.75	102.45	Dec 2008	2.75		CSFB
Halifax	100	2.25	100.10	Dec 2004	2.25		Deutsche Bank(Swiss)

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Convertible. §Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $500m. Plus 15 days accrued. b) Fungible with £1.2bn. No accrued. c) Fixing approx 28/11/98. Indicated conv prem: 23-28%. Callable from 1/1/02, subject to 115% hurdle, at par. 10 shares per bond. 11% greenshoe. ¶ Long 1st coupon. e) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 9	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.4188	4.81	-	+0.28	+0.23	-0.31
	08/08	8.750	128.8687	5.20	+0.03	+0.28	+0.20	-0.76
Austria	07/00	5.875	103.5900	3.61	+0.01	-	-0.03	-1.00
	01/08	5.000	104.1600	4.44	-0.03	+0.04	-0.10	-1.22
Belgium	01/00	4.000	100.5800	3.50	+0.01	+0.02	+0.03	-0.88
	03/08	5.750	109.5300	4.43	+0.06	+0.05	-0.11	-1.30
Canada	12/00	5.000	100.2800	4.87	-0.05	+0.21	+0.02	+0.03
	06/08	6.000	105.4400	5.27	-0.02	+0.09	+0.21	-0.24
Denmark	11/00	8.000	108.2900	4.01	-0.05	-0.07	-0.37	-0.80
	11/07	7.000	118.4700	4.71	-0.03	+0.02	-0.16	-1.42
Finland	01/99	11.000	101.2435	3.09	-0.01	+0.03	-0.21	-1.31
	04/08	6.000	111.1610	4.52	-0.02	-	-0.18	-1.30
France	07/00	4.000	100.8100	3.48	+0.02	+0.05	+0.07	-0.97
	10/05	7.750	123.[illegible]	3.92	-0.02	-0.01	-0.14	-1.42
	10/08	8.500	133.5000	4.29	-0.03	+0.01	-0.15	-1.34
	04/29	5.500	104.2100	5.22	-0.01	-0.01	-0.07	-0.99
Germany	08/00	4.000	100.7500	3.49	-0.03	+0.04	+0.11	-0.80
	10/05	6.500	114.2000	4.08	-0.05	-0.01	-0.20	-1.26
	07/08	4.750	104.2700	4.20	-0.04	+0.02	-0.03	-1.40
	01/28	5.625	105.0800	5.22	-0.04	-0.02	-	-1.00
Ireland	10/01	6.500	107.6200	3.72	-0.03	-	-0.07	-1.78
	08/08	8.000	111.9800	4.46	-0.01	+0.01	-0.17	-1.63
Italy	04/01	4.500	101.7400	3.72	+0.02	+0.04	-0.12	-1.69
	07/03	4.500	102.3000	3.95	-0.01	-0.01	-0.18	-1.74
	05/08	5.000	104.0200	4.47	-0.01	-0.01	-0.24	-1.67
	11/27	6.500	115.3400	5.44	+0.01	+0.02	-0.12	-1.23
Japan	12/00	6.900	113.8700	0.25	-0.02	-0.07	-0.14	-0.22
	12/03	4.100	117.4300	0.62	-0.01	-0.03	-0.06	-0.59
	06/08	1.800	108.5700	0.87	-	+0.01	+0.04	-0.80
	03/18	2.700	120.8000	1.46	-	-0.02	+0.07	-0.98
Netherlands	05/00	9.000	107.8300	[illegible]	-0.07	+0.04	-0.05	-0.87
	07/08	5.250	107.4500	4.29	-0.03	+0.03	-0.11	-1.29
New Zealand	02/01	8.000	106.5601	5.29	+0.08	+0.10	+0.04	-1.59
	07/09	7.000	110.4484	5.68	+0.11	+0.22	+0.24	-0.83
Norway	01/99	9.000	100.0900	7.99	+0.09	+0.16	-0.01	+3.46
	01/07	6.750	107.4000	5.59	+0.04	+0.05	-0.20	-0.21
Portugal	03/00	5.375	102.3000	3.59	+0.01	-0.02	+0.04	-1.48
	08/08	5.375	108.2700	4.56	+0.02	+0.04	-0.09	-1.50
Spain	04/00	6.750	104.3500	3.62	-0.03	+0.03	+0.03	-1.39
	01/08	6.000	110.8700	4.53	-0.01	-	-0.19	-1.49
Sweden	05/00	10.250	108.7950	3.94	-0.02	-0.02	-0.49	-1.17
	05/08	6.500	113.4420	4.70	+0.02	+0.06	-0.28	-1.68
Switzerland	08/00	4.500	104.6000	1.50	+0.08	+0.21	+0.30	-0.56
	01/08	4.250	112.8500	2.66	-0.03	-0.02	-0.10	-0.94
UK	11/01	7.000	104.7400	5.27	-0.02	+0.07	-0.02	-1.77
	12/03	6.500	106.7700	4.97	-0.03	+0.04	-0.01	-1.72
	10/08	9.000	130.4200	5.06	-0.07	-0.04	-0.11	-1.52
	12/28	6.000	119.5800	4.77	-0.05	-0.08	-0.18	-1.70
US	09/00	4.500	99.7292	4.05	-0.01	+0.29	+0.42	-1.08
	08/03	5.250	102.6938	4.61	-0.02	+0.23	+0.19	-1.30
	05/08	5.625	105.0655	4.95	-0.04	+0.19	+0.20	-0.94
	08/28	5.500	101.7816	5.38	-0.05	+0.15	+0.28	-0.81
ECU	07/00	4.000	100.7300	3.53	+0.02	+0.02	+0.04	-1.22
	04/08	5.250	107.0900	4.32	-0.02	+0.01	-0.12	-1.46

London closing. * New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Nov 9	Bid Yield	Spread vs Bonds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.21	+1.04	+0.32	New Zealand	5.68	+1.51	+0.79
Austria	4.40	+0.23	-0.49	Norway	5.61	+1.44	+0.72
Belgium	4.46	+0.29	-0.43	Portugal	4.56	+0.39	-0.33
Canada	5.26	+1.09	+0.37	Spain	4.62	+0.45	-0.27
Denmark	4.67	+0.50	-0.22	Sweden	4.72	+0.55	-0.17
Finland	4.58	+0.41	-0.31	Switzerland	2.74	-1.43	-2.15
France	4.29	+0.12	-0.60	UK	5.07	+0.90	+0.18
Germany	4.17	-	-0.72	US	4.89	+0.72	-
Ireland	4.47	+0.30	-0.42	ECU	4.37	+0.20	-0.52
Italy	4.57	+0.40	-0.32				
Japan	0.87	-3.30	-4.02				
Netherlands	4.28	+0.11	-0.61				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Nov 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	87.3847	11.72	+0.47	+0.89	+7.15
Poland	07/04	7.125	BBB-	103.6697	6.32	+0.12	-	+1.[illegible]
Russia	05/07	10.000	CCC-	24.0000	45.75	-0.25	-11.77	+40.92
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	87.5000	11.21	+0.01	-0.07	+5.90
Brazil	05/27	10.125	BB-	73.3130	13.92	-0.28	-1.89	+8.61
Mexico	05/26	11.500	BB	106.0000	10.81	+0.06	-0.69	+5.52
■ ASIA								
China	07/06	7.750	BBB+	105.3053	6.93	+0.15	-1.76	+2.07
Philippines	10/16	8.750	BB+	85.4876	10.57	+0.47	-2.57	+5.50
Thailand	04/07	7.750	BBB-	89.0412	9.68	+0.47	-1.94	+4.85
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.1428	7.07	+0.47	-0.32	+2.48
South Africa	10/06	8.375	BB+	87.2393	10.85	+0.47	-0.87	+6.09
Turkey	09/07	10.000	B	90.5000	11.77	-0.38	-2.31	+6.94
■ BRADY BONDS								
Argentina	03/23	5.750	BB	70.5000	8.99	-	-0.49	+3.77
Brazil	04/14	5.000	BB-	64.6250	12.79	+0.09	-0.67	+7.77
Mexico	12/19	6.250	BB	75.2500	8.86	+0.21	-0.52	+3.73
Venezuela	03/20	6.750	B+	65.0000	11.05	+0.43	+0.73	+5.90

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	108.45	108.74	+0.03	108.80	108.28	61,595	89,867

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
107	1.82	-	-	0.05	-	-
108	0.98	-	-	0.14	-	-
109	0.38	-	-	0.24	-	-
110	0.10	-	-	0.39	-	-

Est. vol. total. Calls 2,878 Puts 7,582. Previous day's open int., Calls 37,925 Puts 32,088.

Germany

■ NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.70	111.99	+0.13	111.70	111.60	5	n/a
Mar	-	112.29	+0.07	-	-	0	n/a

■ NOTIONAL GERMAN BOND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.65	112.10	+0.57	112.13	111.45	340,867	701,837
Mar	111.90	112.41	+0.51	112.40	111.79	3,442	27,876

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Puts Dec	Puts Jan	Puts Feb
11150	0.62	1.28	1.52	0.33	0.47	0.73
[illegible]	0.51	0.98	1.23	0.62	[illegible]	0.94
11250	0.30	0.71	0.98	0.81	0.92	1.19

Est. vol. total. Calls 0 Puts 0. Previous day's open int., Calls 5590 Puts 4830

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107.58	[illegible]	+0.31	107.86	[illegible]	119,583	272,557
Mar	107.28	107.55	+0.17	107.39	107.28	1,652	12,880

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110.06	110.39	+0.13	[illegible]	109.94	18894	n/a
Mar	-	110.34	+0.09	-	-	0	n/a

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Jan	Puts Dec	Puts Jan
11000	0.76	1.00	0.36	0.66
11050	0.48	0.74	0.58	0.90
11100	0.28	0.53	0.86	1.19

Est. vol. total. Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.00	113.66	-0.40	114.09	113.47	48,728	82,221
Mar		113.08					

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	107.52	+0.10	-	-	0	n/a
Mar	-	107.69	+0.10	-	-	0	n/a

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.70	114.23	+0.46	114.35	113.35	39168	n/a
Mar		114.39	+0.46				

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Puts Dec	Puts Jan	Puts Feb
11400	0.93	1.52	1.96	0.64	1.13	1.50
11450	0.68	1.26	1.70	0.89	1.37	1.81
11500	0.48	1.03	1.47	1.19	1.64	2.08

Est. vol. total, Calls 3295 Puts 1610. Previous day's open int., Calls 47894 Puts 25504

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	125-19	126-10	+0-23	126-12	125-02	459,251	629,140
Mar	125-08	125-31	+0-23	126-01	124-24	13,765	134,386
Jun	124-27	125-14	+0-24	125-14	124-27	609	2,578

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	135.60	135.50		135.60	135.50	621	n/a
Mar		137.79				0	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.25	102.50	-0.50	102.25	102.25	25	308

US CORPORATE BONDS

Nov 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Sprd vs US
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NY Tel	06/23	7.00	A+	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CWE	06/08	6.00	BBB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ FINANCIALS								
GECC	05/07	8.75	AAA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banc One	08/02	7.25	A+	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CNA Fin	01/18	6.95	A-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ INDUSTRIALS								
WMX Tech	04/99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wal Mart	08/02	8.75	AA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dayton Hud	08/01	9.70	BBB+	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ AGENCIES								
FHLMC	04/07	7.14	N/A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SLMA	03/00	7.50	N/A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FNMA	02/18	6.55	N/A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FFCB	08/08	5.86	N/A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ HIGH YIELD								
Stone Cont	02/01	[illegible]	B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AK Stl	12/01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacalta	08/04	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NY closing. Standard & Poor's ratings. Yields: local market standard. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	[illegible]	One month	[illegible]	Two year	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]	Three year	[illegible]
Fed funds	[illegible]	Three month	[illegible]	Five year	[illegible]
Fed funds at intervention	[illegible]	Six month	[illegible]	10 year	[illegible]
		One year	[illegible]	30 year	[illegible]

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Nov 9	Day's change %	Fri Nov 6	Accrued interest	xd adj. ytd	Low coupon yield Nov 9	Nov 6	Yr. ago	Medium coupon yield Nov 9	Nov 6	Yr. ago	High coupon yield Nov 9	Nov 6	Yr. ago
1 Up to 5 years (17)	121.67	0.05	121.61	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 5-15 years (28)	171.54	0.34	170.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years (4)	222.80	0.42	222.27	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]									
5 All stocks (45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]									

Index-linked	Mon Nov 9	Day's change %	Fri Nov 6	Accrued interest	xd adj. ytd	Inflation 5% Nov 9	Nov 6	Yr. ago	Inflation 10% Nov 9	Nov 6	Yr. ago
6 Up to 5 years (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Over 5 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 All stocks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]						

Average gross redemption yields are shown above. [illegible]

FT Fixed Interest Indices

	Nov 9	Nov 6	Nov 5	Nov 4	Nov 3	Yr ago	High*	Low*
Govt. Secs. (UK)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

UK GILTS PRICES

Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INTERNATIONAL BONDS

Nov 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread vs Govts
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

مكررا من الأصل

CURRENCIES & MONEY

Dollar struggles to make clean break

MARKETS REPORT

By Alan Beattie

The dollar yesterday bounced up above the Y120 barrier but appeared to lack sufficient momentum to break out of the range it has traded in for several weeks.

After breaking above the Y121 level in midsession European trading, the dollar beat off rumours of selling by European central banks to close in London at Y121.3, three yen higher than Friday's close of Y118.3.

It also rose against the D-Mark, hitting a six-week high and closing up over two pfennigs higher at DM1.668.

■ A variety of factors were cited as contributing to the dollar's rise, though none on its own was regarded as a compelling reason for a sustained appreciation.

The prospect of an IMF loan for Brazil, the increasing possibility of military action against Iraq and the resignation of Newt Gingrich as Speaker of the House, confirming good prospects for greater political stability in the US, were all seen as positive for the dollar.

"But overall, apathy rules," said Steve Barrow, currency strategist at Bear Stearns in London. "Traders are interested in keeping volatility to a minimum and flows rather than fundamentals are the main thing driving the market."

Mr Barrow said that flows on their own should be enough to drive the dollar up to Y126 by the year end, but that the dollar lacked enough momentum to regain the ground it lost so dramatically in early October.

Analysts looking at the technical side for the dollar suggested that the currency would have to break through Y123.5 before many participants joined the move.

"People are concerned at getting sucked into a false break," said Ian Gunner, foreign exchange strategist at ABN-AMRO in London.

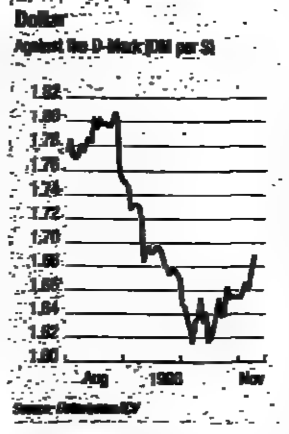
"The risk-reward picture is better for dollar-yen than for dollar-DMark," he said. "So there is a potential for a dollar recovery against the yen. And because the dollar fell so quickly, there aren't many [resistance] levels above Y120 it has to break."

But the repeated failure of the dollar to make a convincing break above Y120 in recent weeks implied the need for an obvious trigger to kickstart the move.

■ Growing optimism that Brazil will avoid a rapid and forced devaluation has been reflected in a gradual reversal of the flood of dollars leaving the country.

Dollar

Against the D-Mark (DM per $)



The foreign exchange market saw a net inflow of $41m on Friday. The total outflow for October totalled $1.9bn after a $18.9bn loss in September. The International Monetary Fund is expected to agree a loan package of up to $45bn this week.

"Brazil has been very skilful in playing on market expectations," said Tom Trebat at Salomon Smith Barney in New York.

"This eye-dropper approach to reform means that markets have been made to wait for each piece of good news, creating positive expectations for the future and giving the crisis of confidence a chance to simmer down."

■ Sterling also had a good day yesterday in the foreign exchange markets, keeping pace with the dollar against the D-Mark and the yen, though most of the news in the day appeared to be negative for the currency.

The pound finished at DM2.800 in London trading, up from DM2.764 on Friday.

Sterling rose despite two apparently weakening factors. It shrugged off press reports that it might come under pressure at the end of the year as traders seek to sell off the sterling portion of their ecu baskets as those baskets become convertible for euros, and ignored very weak producer price data.

Some of sterling's strength derived from the traditional coat-tailing of the currency with the dollar, said analysts. But there were also rumours of important flows coming in, notably a £2bn bid for London Electricity from a French company.

Analysts also seemed to be consolidating round the view that the aggressive 50 basis point cut in UK interest rates last week lessened the chance of another cut this year. Short sterling contracts, although settling higher yesterday than on Friday, did not regain the ground lost after the rate cut was announced last week.

■ POUND IN NEW YORK

Nov 9	—Latest—	—Prev. close—
£ spot	1.6690	1.6635
1 mth	1.6667	1.6633
3 mth	1.6631	1.6645
1 yr	1.6365	1.6402

■ OTHER CURRENCIES

Nov 9	£	$
Czech Rp	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Poland	[illegible]	[illegible]
Russia	[illegible]	[illegible]
UAE	[illegible]	[illegible]

POUND SPOT FORWARD AGAINST THE POUND

Nov 9	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
[illegible]												

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 9	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
[illegible]												

WORLD INTEREST RATES

MONEY RATES

Nov 9	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	–
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	–	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	–	3.69
Italy	[illegible]	[illegible]	4	[illegible]	[illegible]	6.50	5.00	5.12
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	1.00	–
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	5.00	–
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
US Dollar CDs	–	4.97	4.89	4.81	[illegible]	–	–	–
ECU Linked Ds	–	[illegible]	4	[illegible]	[illegible]	–	–	–
SDR Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 9	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
96375	0.036			0.120		
96500	0.015	0.100	0.200	0.225	0.110	0.155
96625	0.010			0.345		

Est. vol. total, Calls 85 Puts 0. Previous day's open int., Calls 72084 Puts 80368

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 9	BFr	DKr	FFr	DM	IE	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
[illegible]																	

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

Nov 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]					
Sterling CDs	[illegible]					
Treasury Bills	[illegible]					
Bank Bills	[illegible]					
Local authority depo.	[illegible]					
Discount Market deps	[illegible]					

UK clearing bank base lending rate 6¾ per cent from Nov 5, 1998

Certs of Tax dep. (£100,000)

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
93250	0.140	[illegible]	[illegible]	[illegible]		
93375	0.080			0.135		
93500	0.040	0.425	0.725	0.220	0.125	0.135
93625	0.020			0.325		
93750	0.010	0.275	0.545	0.440	[illegible]	0.205
93875	0.005			0.560		

Est. vol. total, Calls 4266 Puts 5408. Previous day's open int., Calls 541085 Puts [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

Nov 9	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
[illegible]						

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Exeter Trust Limited	8.25	Smith & Williamson	6.75
Allied Irish Bank (GB)	6.75	Financial & Gen Bank	8.00	Sun Bank	7.25
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Heritable & Gen Inv Bk.	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	7.50	C. Hoare & Co	7.25	Whiteaway Laidlaw	6.75
Bank of India	6.75	●Hambros Bank	6.75	Yorkshire Bank	6.75
Bank of Scotland	6.75	Hongkong & Shanghai	6.75		
Barclays Bank	6.75	Investec Bank (UK) Ltd	6.75	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.75	Julian Hodge Bank	7.25		
●Brown Shipley & Co Ltd	6.75	●Leopold Joseph & Sons	7.25		
Citibank NA	6.75	Lloyds Bank	6.75		
Clydesdale Bank	7.25	Midland Bank	6.75		
The Co-operative Bank	6.75	NatWestminster	6.75		
Coutts & Co	6.75	●Rea Brothers	6.75		
Cyprus Popular Bank	7.25	Royal Bk of Scotland	7.25		
Duncan Lawrie	6.75	Scottish Widows Bank	6.75		
		●Singer & Friedlander	6.75		

Nickel braced for processing revolution

By Stephen Wyatt in Sydney

A revolution in the nickel market will occur if new processing techniques prove successful, according to analysts speaking at the Asia-Pacific Nickel Trends conference in Sydney last Friday.

World production could double in the next five years and all high-cost producers would be put out of business, they said.

The nickel industry is still divided on how successful high-pressure acid leach processing of laterite nickel deposits will be. But it is crunch time, with the first such project commissioned this month in Australia.

The nickel market has already factored some of this potential supply increase into prices. Coupled with the Asian recession-induced collapse in demand for stainless steel, nickel's main end-user, prices fell to their lowest last month for 11 years.

Since those lows, the market has bounced back as scepticism about the success of new processes and speed of production increases were also priced in. Even so, current prices show the industry is in trouble.

Inco, the world's second largest nickel producer, recently announced a third-quarter loss of $24m and Falconbridge announced a $10.5m loss.

"We estimate that at $1.75 a pound, around 60 per cent of current western production is cash-flow negative and all producers are losing money on a total cost basis," said Adam Rowley and Jim Lennon, commodities analysts with Macquarie Bank.

The nickel industry was experiencing difficulties even before the potential production explosion.

This month, Centaur Mining, the first Australian laterite nickel producer, will commission stage 1 of its Cawse project, near Kalgoorlie in Western Australia.

Anaconda Nickel Ltd's Murrin-Murrin and Preston Resources' Bulong Nickel projects will follow.

Cawse 1 should produce 8,000 tonnes of nickel in 1998-99; Bulong 1 should produce 9,000 tonnes in 1999-2000; and Murrin-Murrin 38,000-45,000 tonnes in 1999-2000, said Dr Alan Heap, commodities analyst with Salomon Smith Barney.

If these producers prove that high-pressure acid leach processing of laterite nickel is successful, this will just be the beginning.

"The revolution about to be forthcoming in laterite nickel processing", as Adrian Griffin of Preston Resources NL calls it, will enormously boost the world's supply of nickel.

It will probably add about 450,000 tonnes and possibly as much as 1,190,000 tonnes by 2003, said Dr Heap. Of this, the Australian contribution will be about 240,000 tonnes, and perhaps as much as 570,000 tonnes.

Current western world nickel production is about 720,000 tonnes, so the potential world increase of 450,000 tonnes would be a significant 63 per cent rise.

Laterite nickel producers and their supply will also push the industry cost curve down. It will be a matter of cutting costs or getting out, said Dr Heap.

He forecasts the average cash cost of nickel in 2003 will fall to $1.60 a pound, down from this year's $1.95 a pound – a 22 per cent fall.

The main Australian laterite producers are forecast to have cash costs in 2003 of between 70 cents and $1.25 a pound, depending on the producer.

Further fall forecast in LME metal prices

By Kenneth Gooding, Mining Correspondent

London Metal Exchange traded metals prices will continue to fall next year, according to the research team at Billiton Metals. Nickel will be the most badly affected and Billiton expects the average price next year to be nearly 44 per cent below 1997's average.

Angus MacMillan and Karen Norton, the Billiton team, have brought forward their annual forecasts because their work for Billiton is ending after nine years. Billiton Metals has been sold to Metallgesellschaft and from now on Billiton clients will receive MG research material produced in co-operation with Warburg Dillon Read.

Ms Norton and Mr MacMillan made it clear their views on metals had not been coloured by their personal situations. "You have not heard the last of us," they said. "For God's sake, put your hankies away."

Tear-shedding should be reserved for some mining groups which, if the Billiton forecasts are accurate, are facing a very tough environment in 1999.

Billiton predicts there will be deliberate cuts and supply side problems that will constrain nickel output, but this will be offset through expansion elsewhere and start-up of new capacity, particularly in Australia.

"Even allowing for a decline in Russian exports, this market will record further surpluses both this year and next, reflecting weak demand from the stainless steel industry," the team said in the last of its weekly metals research reports.

They said nickel, which averaged $3.20 a pound in 1997, will average $2.10 this year and $1.80 next.

Copper is predicted to show the second biggest fall this year, from $1.032 a pound to 75 cents, or one of 27.3 per cent, and to slip by a further 6.7 per cent to an average 70 cents next year.

Aluminium is likely to fall by 14.5 per cent this year, from last year's average 72.5 cents a pound, to 62 cents, and then to slip by a further 3 per cent to 60 cents.

Lead is forecast to fall 15.2 per cent from last year's 28.3 cents a pound to 24 cents and by a further 12.5 per cent to 21 cents in 1999.

Zinc is seen falling by 22.2 per cent from last year's 59.8 cents a pound to 46.5 cents this year and to slip another 3.2 per cent to an average 45 cents next year.

Tin is predicted to fall only 2.3 per cent to $2.50 a pound this year and by 4 per cent to $2.40 next year.

Ms Norton and Mr MacMillan said prices have dropped because metals-intensive activities in Japan and Asia have stopped, although demand in Europe and North America has held firm. "The extent to which these areas will continue to offset Asian weakness will be the critical issue for metal demand next year," the researchers suggest.

Kenya in crisis over sugar transit fraud

The industry is already suffering from low prices and inefficiency, says Mark Turner

The expected trial this month of Fahim Twaha, Kenya's recently sacked assistant minister for natural resources, has brought into sharp focus the crisis facing the east African country's sugar sector.

Mr Twaha, who denies the charges, stands accused of diverting large quantities of duty-free sugar, destined for re-export, on to local markets, undermining a domestic industry already suffering from a combination of local inefficiency and dropping world prices.

It is far from an isolated case. According to Mark Too, the head of Kenya's parastatal sugar authority, well-connected traders evaded import duties on up to 90,000 tonnes in the first eight months of the year.

Meanwhile, the country's seven sugar companies are saddled with 80,000 tonnes of unsold stocks and are in default to their financiers.

"The sugar industry in Kenya has been facing its worst crisis for many years," says David Covell, regional director for Booker Tate, which manages state-owned sugar company Mumias.

With up to 1.5m people in a country of 30m dependent on the industry, the problem has taken on a profoundly political hue, and even Daniel arap Moi, the country's president, has seen fit to rail against transit fraud.

The International Monetary Fund, which is expected to start talks on relaunching Kenya's structural adjustment facility this year, has also taken note of events.

"These problems do great damage to the domestic sugar industry, which has a very negative impact on unemployment and the economy," says an IMF official.

Under growing pressure, the government recently increased a sugar import levy to 40 per cent and raised import tariffs on imported sugar to 95 per cent. Unprotected domestic produce, which costs about $500 a tonne before tax to produce, faces world prices of $250 a tonne or lower.

However, the move quickly encountered scorn from government critics. "The issue is not the amount of duties, but the exemptions," says Paul Muite, head of opposition party Safina. "Raising duties will mean even higher windfalls for the sharks."

Rejecting these criticisms, Mr Too, who has close ties to the president, insists that he is personally overseeing a crackdown on the ports and the transit system.

According to the sugar companies, recent measures have brought some improvements. Mr Covell says the price of imported sugar had increased from about Ks 32,000-Ks 34,000 ($537-$570) to Ks 35,000-Ks 36,000 ($587-$604) a tonne – compared with local produce, which sells at Ks 36,000.

Nevertheless, he complains that there is still evidence of import fraud.

"If all the duties were paid, imported sugar would sell at about Ks 39-40,000," says Mr Covell.

Also, legitimate importers are growing increasingly critical of the new tax regime. Maina Kariaki of Coca-Cola North Africa, Kenya's largest importer of refined white sugar, warns that it might have to increase prices by a third if something is not done.

"Although the import duty for us has been reduced again to 25 per cent, we still face a huge levy," says Mr Kariaki. "Industrial users are demanding a special quota, where everybody knows exactly who is consuming the sugar, and what quality it is. We believe this is very viable."

Some 1.5m Kenyans depend on the sugar industry Panos Pictures

Report by IEA depresses oil

MARKETS REPORT

By Paul Solman and Kenneth Gooding

Crude oil prices fell again yesterday after the International Energy Agency lowered its forecast for global demand.

Demand will rise this year by 550,000 barrels a day (bpd) compared with 2m bpd in each of the past two years, the agency said, citing lower than expected consumption in the US, Mexico, South Korea and China.

Next year, demand will rise by 400,000 bpd, said the IEA, the energy arm of the Organisation for Economic Co-operation and Development.

In late trading on London's International Petroleum Exchange, the benchmark December contract for Brent blend dropped to $12.21 a barrel from Friday's close of $12.35. The price has been falling steadily since the beginning of last week; just over a week ago the contract traded at $13.22.

"The IEA report depressed those who were looking for stronger prices in the next few months," said Leslie Nicholas, energy analyst at GNI in London. "The forecast for a cold winter was expected to help oil prices but it now looks like there's going to be a stock overhang."

However, Mr Nicholas expects prices to recover. "There is background concern about the situation with Iraq in the Middle East, and we should still see a stock draw-down this winter, which will boost prices."

Cocoa futures weakened on the London International Financial Futures and Options Exchange, the December contract finishing down £11 at £973 a tonne after a bout of fund selling.

On the London Metal Exchange, there were signs that there could be a squeeze in the aluminium market in January, dealers said. They suggested a battle was looming between trading houses that were long of aluminium and funds and Asian traders who were short.

On Friday a premium developed for aluminium for delivery on some January dates compared with metal for immediate delivery.

At one stage yesterday the premium doubled from Friday's level to $2 a tonne, but by the close had eased to $1.50. Aluminium for delivery in three months was $2 a tonne lower at $1.315 at the close.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1289.5-87.5	1307-08
Previous	1299-9	1317-8
High/low	[illegible]	1318/1307
AM Official	1291.5-92	1312.5-13
Kerb close		1316-17
Open int.	244,630	
Total daily turnover	34,754	

■ ALUMINIUM ALLOY ($ per tonne); ■ LEAD ($ per tonne); ■ NICKEL ($ per tonne); ■ TIN ($ per tonne); ■ ZINC, special high grade ($ per tonne); ■ COPPER, grade A ($ per tonne); ■ LME AM Official £/$ rate; LME Closing £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX): [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild): [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.); ■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.); ■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.); ■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.): [illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel); ■ CRUDE OIL IPE ($/barrel); ■ HEATING OIL NYMEX (42,000 US galls; c/US galls); ■ GAS OIL IPE ($/tonne); ■ NATURAL GAS IPE; ■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu); ■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls): [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	78.10	-1.00	78.50	78.00	26	42
Jan	80.10	-1.00	80.50	80.00	280	2,662
Mar	82.00	-1.10	82.60	82.00	105	3,167
May	84.10	-1.00	[illegible]	[illegible]	17	[illegible]

■ WHEAT CBT; ■ MAIZE CBT; ■ BARLEY LIFFE (100 tonnes; £ per tonne); ■ SOYABEANS CBT; ■ SOYABEAN OIL CBT; ■ SOYABEAN MEAL CBT; ■ POTATOES LIFFE; ■ FREIGHT (BIFFEX) LIFFE: [illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	975	-9	982	973	2,447	44,218
Mar	1005	-12	1014	1005	2,772	37,135
May	1025	-12	1034	1025	499	16,350
Jul	1042	-13	1052	1043	386	10,305

■ COCOA CSCE (10 tonnes; $/tonne); ■ COCOA (ICCO); ■ COFFEE LIFFE; ■ COFFEE 'C' CSCE; ■ COFFEE (ICO); ■ WHITE SUGAR LIFFE; ■ SUGAR '11' CSCE: [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	69.45	+1.33	69.89	68.50	3,705	33,589
Mar	68.56	+1.07	68.64	67.70	2,085	24,554
May	69.03	+1.11	69.10	68.20	477	14,181
Jul	69.25	+1.00	69.45	68.60	336	10,274
Oct	69.30	+1.20	69.30	69.00	9	901
Total					6,695	93,893

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	119.65	+1.80	119.75	117.50	172	348
Jan	121.10	+1.75	121.40	119.40	1,295	13,016
Mar	123.10	+1.95	123.50	121.50	103	5,762
May	124.85	+2.00	125.00	124.50	6	1,398
Jul	126.45	+2.20	125.50	125.50	2	669
Sep	128.45	+1.70	126.00	125.75	-	66
Total					[illegible]	[illegible]

PULP AND PAPER

■ PULPEX DAILY (USS, 24 air dry tons): [illegible]

FUTURES DATA

All futures data supplied by CMS

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	64.175	-0.325	64.600	64.100	6,997	40,926
Feb	65.425	+0.150	65.550	65.000	5,174	30,166
Apr	68.525	+0.275	66.625	66.025	1,891	18,886
Jun	64.100	+0.250	64.300	63.700	[illegible]	10,894

■ LEAN HOGS CME (40,000lbs; cents/lbs); ■ PORK BELLIES CME (40,000lbs; cents/lbs): [illegible]

LONDON TRADED OPTIONS

■ ALUMINIUM (99.7%) LME; ■ COPPER (Grade A) LME; ■ COFFEE LIFFE; ■ COCOA LIFFE; ■ BRENT CRUDE IPE: [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.20-2.37z	-0.16
Brent Blend (dated)	$11.23-1.31	-0.335
Brent Blend (Dec)	$12.13-2.21	-0.335
W.T.I.	$13.57-3.63x	-0.29

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$141-143	-2
Gas Oil	$112-113	
Heavy Fuel Oil	$58-60	-1.
Naphtha	$128-130	-2
Jet fuel	$124-126	-3.5
Diesel	$119-121	-2

■ NATURAL GAS (Pence/therm)

		+or-
Bacton (Dec)	15.05-15.06	-0.10

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

		+or-
Gold (per troy oz)♣	$292.45	-0.80
Silver (per troy oz)♣	499.50c	[illegible]
Platinum (per troy oz.)	$337.50	-6.00
Palladium (per troy oz.)	$273.00	
Copper	78.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.65r	
Tin (New York)	265.5	
Cattle (live weight)	80.47p	+3.32*
Sheep (live weight)	64.42p	-1.32*
Pigs (live weight)†	49.90p	+2.86*
Lon. day sugar (raw)	$195.00	-1.80
Lon. day sugar (wte)	$231.80	-4.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	49.50p	-0.50
Rubber (Jan)♥	50.00p	[illegible]
Rubber (KL RSS No1)	275.00m	-1.00
Coconut Oil (Phil)§	735.0y	-10.0
Palm Oil (Malay.)§	665.0	+2.5
Copra (Phil)§	$480.0y	
Soyabeans (US)	157.0y	+2.0
Cotton Outlook'A' index	57.80	
Wooltops (64s Super)	286p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct z Dec. W London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 2,813 head of pigs sold.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 9	Nov 6	month ago	year ago
1480.8	1486.3	1488.0	1815.6

■ CRB Futures (Base: 1967 = 100)

Nov 6	Nov 5	month ago	year ago
205.84	205.84	-	-

■ GSCI Spot (Base: 1970 = 100)

Nov 6	Nov 5	month ago	year ago
148.19	147.90	151.57	204.09

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+225	to	526,275
Aluminium alloy	+220	to	86,580
Copper	+1,425	to	485,525
Lead	+250	to	110,375
Nickel	+78	to	60,402
Zinc	-1,600	to	342,275
Tin	-180	to	7,465

Minor Metals from Metal Bulletin: European free market, $ per pound in warehouse, unless otherwise stated (last week's prices in brackets). Antimony: 99.65%, $ per tonne, 1,275-1,325 (1,300-1,350). Bismuth: min. 99.99%, tonne lots, 2.90-3.20. Cadmium: min. 99.95%, cents a pound, 16-19 (17-20). Cobalt: MB free market, min. 99.8%, 15.50-16.50 (15.80-16.60); min. 99.3%, 13.50-14.30 (13.90-14.90). Mercury: min. 99.99%, $ per 76 pound flask, 137-145. Molybdenum: drummed molybdic oxide, 2.05-2.20 (2.18-2.25). Selenium: min 99.5%, 1.40-2.30. Tungsten ore: 38-48. Vanadium: min 98%, 3.40-3.60 (3.50-3.95).

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,835 Set by HIGHLANDER

ACROSS

1 Our need to reset my book (11)
7 Position for patient character in old Jewish community (3)
9 Clown takes a drink (5)
10 Origins of any dead language became an obsession (9)
11 Pamela reversed into Don – just what rally driver needs (9)
12 The engineers put on sympathetic expression (5)
13 Football team always preceding, not receding (7)
15 Why they say old member goes on trek (4)
18 Half want this paper to be carried on the air (4)
20 Frank, seeing that, takes note (7)
23 M9 surface being repaired, creating confusion (3-2)
24 Adapt plan and use in area mostly sea-girt (9)
26 Fish and fruit only (5,4)
27 Big fella, brown, full of sex appeal (5)
28 Still, so far (3)
29 Second XI wave with a force that's irresistible (11)

DOWN

1 Date put on community brand is this one (8)
2 Topless? Not an international! (8)
3 Get away from girl before small boy turns up (5)
4 Leg before and bowling continually (2-3-2)
5 Methodical hospital assistant (7)
6 Chants may disturb sailor (9)
7 He has a tendency to associate with skilled woodworker (6)
8 Prohibited sound made by players (6)
14 Ceremonial clothes are catching on, son (9)
16 But in later uprising there's a contrary contention (8)
17 Hang on to most of her fee (8)
19 Loop the loopy? Super! (7)
20 Ray's total includes the odd bean (7)
21 Use printer's spacing trick (6)
22 Excused them appearing briefly in previous training exercise (6)
25 Other ranks can go over the explosive (5)

Solution to Saturday's prize puzzle on Saturday November 21.
Solution to yesterday's prize puzzle on Monday November 23.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

Morgan Stanley Offs Advisory Mortgage Fd Inc

National Investment Trust Company Ltd

North Atlantic Management Co Ltd

Olympus Capital Management Ltd

Omega Overseas Partners Ltd

Opportunity Fund (z)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

ABN AMRO Global Liquidity Funds Plc (z)

Aberdeen Prolific International Fund Plc

Bank of Cyprus Group

Barings International Fund Managers (Ireland) Ltd

Christows Investments Plc

GT Global - Contd.

Global Asset Management (GAM)

The Halal Mutual Investment Company Plc

Henderson Crosthwaite Investment Co

Herald Investment Fund Plc

Investec Guinness Flight Fd (Ireland) Ltd

IRELAND (REGULATED)(**)

Abbey National Dublin Investment Fund Plc

Abbey National Dublin Investment Fd II Plc

Abbey National Dublin Investment Fund III Plc

Aberdeen Prolific Umbrella Cash Fund Plc

Anadeus Capital Vision Plc

Asia Dynamic Growth Fund Plc

Asia Small Cos Growth Fund (z)

Asian Growth Fund Plc

Asset Korea Fund

Asset Universal Ltd

Irish Life International Global Funds Plc

John Hancock Funds Plc

Hanmi Korea Venture Fund

Investec Asset Management (Ireland) Ltd

Scottish Mutual Intl Fund Managers Ltd

Seltem Investment Mngt (Ireland) Ltd

Short-Term Investments Co (Global Series) Plc

Singer & Friedlander Closed Funds Plc

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

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Newton Fund Mgrs - Contd.

Perpetual Fund Management (Jersey) Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

Fleming Group - Contd.

Mercury Asset Management

Templeton Global Strategy Funds (u)

LUXEMBOURG (REGULATED)(**)

Cox & Kings Overseas Fund

Credit Agricole Indosuez

Credit Lyonnais Bank (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

MFS American Funds

Merrill Lynch Asset Management

Templeton Russian & East European Debt Fd

UBS AG

OFFSHORE INSURANCES

صكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171)

	Selling Price	Buying Price	+ or -	Yield Gross

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Finsoco International Ltd

PanEuroLife societe anonyme

Premier Life

Royal & Sun Alliance Intl Financial Srvs

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	q♣	516xd	–10½	646	385	1,940	4.9	13.5
Bulmer (HP)		390	+5	427½	291½	1	5.4	15.1
Burn Stewart		12¾	+¼	48½	7	2,789	–	–
Diageo	sN	615xd	–8½	785	449½	5,284	3.2	18.8
Glenmorangie A		702½	–15	975	695	–	2.5	16.4
B		827½	—	1050	827½	–	1.1	30.6
Highland	q	249	–	325	225	38	4.6	11.1
5¼pc Cr Sb Bd		93¼	+1¼	99½	88	–	6.4	–
Kirin Y		644½	–12	873½	416½	–	0.9	63.3
Matthew Clark	♣♠	239½	–	392	115	1,375	6.8	8.2
Merrydown		24½	–	74½	23½	–	–	Φ
Seagram C$		£21¾	+¾	£28¾	£14¾	–	1.2	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the full Official List.

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, high and low prices at or prior to 4.30pm; where these are shown, as these shares are now traded on the Stock Exchange Electronic Trading Service (SETS). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day automated totals. Dashes indicate that either no trades took place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(4)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- . Indicated dividend yield after pending scrip and/or rights issue
- ♠ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield includes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield excludes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1999. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield is zero.

Abbreviations: , ex dividend; , ex scrip issue; , ex rights; , ex all; , ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1486 a year for each security shown, subject to the Editor's discretion

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The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Earnings concerns as profit-taking hits equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Intermittent flurries of profit-taking and a general feeling that much of the good news on interest rates is already factored into stock prices saw London's equity market retreat yesterday.

But there was never any great weight of selling pressure and the leaders finished well clear of the day's lowest levels, thanks to a burst of buying in the final minutes of the session.

That flurry of support saw the FTSE 100 index, which looked as if it would suffer a three-figure loss and finish below 5,400, rally over 30 points in as many seconds. It ended 57.1 off at 5,433.9, but at its worst it was down 91.9 at 5,399.1.

For the mid-caps and smallcaps, it was a case of marking time. Both categories drifted easier after an early rally ran into the sand. The FTSE 250 closed 7.2 down at 5,433.9 while the FTSE SmallCap ended 0.3 easier at 2,066.4.

The general lethargy affecting London was well illustrated by the relatively poor turnover level yesterday. By 6pm only 710m shares had changed hands, well below recent levels, even for a Monday.

Dealers said that, with last week's 50 basis points reduction in UK interest rates generally seen as the last piece of good news for the time being, the stock market would struggle to make any further rapid progress after its stunning performance over the past month or so.

They also pointed out that the market was constantly on the alert for more profit warnings. There has been a steady flow of such warnings in recent months, which, combined with more expected analyst downgrades, may well upset share prices.

Optimists said one of the few remaining short-term attractions for the stock market – takeovers and mergers apart – was the prospect of another cut in US rates after the next meeting of the Federal Reserve's open market committee, scheduled for November 17.

Others took the view that the Fed's surprise reduction in its Fed Funds and discount rates, in the middle of October and outside a regular open market committee meeting, would mean another cut so soon would be unlikely.

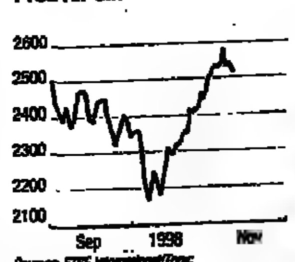
The day's economic news, on producer price data for October, continued the evidence of declining inflationary pressures. Output and input prices both fell 0.2 per cent month on month.

Wall Street failed to come to London's rescue yesterday. Up almost 60 points at the close on Friday evening, the Dow Jones Industrial Average fell back early yesterday posting a 60-point decline as London closed, and dropping even further afterwards.

A Merrill Lynch survey of UK fund managers, taken before the Bank of England cut interest rates, showed that they remain buyers of UK equities, even though they no longer see the market as undervalued.

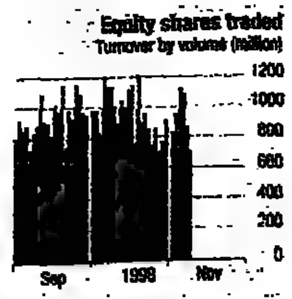
They expect the economy to grow by just over one per cent over 1999. With poor top-line growth expected, 86 per cent of fund managers see the 12-month profit outlook as unfavourable. They expect earnings per share to grow by just 1.7 per cent. A balance of 28 per cent favour mid-cap stocks over Footsie constituents.

FTSE All-Share index



Sources: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5433.9	–57.1
FTSE 250	4934.9	–7.2
FTSE 350	2601.9	–23.3
FTSE All-Share	2516.81	–21.41
FTSE All-Share yield	3.12	3.09
FT 30	3320.8	–26.6
FTSE Non-Fins p/e	21.11	21.23
FTSE 100 Fut Dec	5448.0	–82.0
10 yr Gilt yield	5.14	5.20
Long gilt/equity yld ratio	1.63	1.66

Best performing sectors

1 Oil Exploration & Prod .... +2.7
2 Water .... +1.5
3 Electronic & Elec Equip .... +1.4
4 Gas Distribution .... +1.3
5 Household Goods & Texs .... +1.2

Worst performing sectors

1 Insurance .... –2.8
2 Banks: Retail .... –2.5
3 Engineering: Vehicles .... –1.9
4 Tobacco .... –1.7
5 Life Assurance .... –1.7

Merger talk lifts oil rivals

COMPANIES REPORT

By Peter John and Martin Brice

Lasmo and Enterprise were the latest targets for the takeover speculators' loose cannons yesterday.

Shares in both oil exploration and production companies moved sharply forward in spite of the sogginess in equities and the overall weakness in the oil price.

Lasmo was up 7½ at 177½p and Enterprise 17 at 402p as a story went round dealing desks late in the day that the two old rivals were preparing to bury the hatchet and merge their operations.

One analyst said there was a lot of operational logic as consolidation would give Enterprise access to the politically risky but potentially lucrative areas which form Lasmo's portfolio. And it would provide Lasmo with a more solid basis.

Oil specialists calculated cost savings resulting from a merger would boost the companies' combined net asset value by up to 10 per cent.

Nevertheless, most analysts were sceptical. Enterprise and Lasmo managements were embroiled in a gruelling, bitter bid battle four years ago and are believed to be still carrying the scars.

Neil Perry, exploration and production specialist at HSBC Securities, said: "An agreed merger is unlikely. The strategies of the two companies are almost diametrically opposed."

Everyone thinks Halifax will do something with its £4bn in loose change. The only problem is that they cannot agree what.

It was for that reason that the mortgage lender's share price held up well on a tempestuous day while the companies linked with it all fell spectacularly yesterday.

Hardest hit was **Royal Bank of Scotland**, second biggest casualty in the Footsie with a slide of 61 to 827p. However, that 6.9 per cent slide only reversed the 6.8 per cent rise the shares saw last week.

Royal Bank was the first in the latest round of Halifax-related rumours after one broker published a big buy note and highlighted the potential fit.

Later, **Prudential** was linked with Halifax in a newspaper report that said the two companies had discussed the prospect of a £36bn merger.

The shares jumped 4.7 per cent last week and retraced only 2 per cent or 16 to 813p yesterday.

Finally, one Sunday newspaper suggested Halifax had been in talks with Barclays over a deal which would create a combine to rival Lloyds TSB. Nevertheless, Barclays shares, which were down last week, fell a further 30 to £12.05.

Halifax, on the other hand, built on its recent 5.8 per cent revival with a rise of 7 to 852p. "Halifax wants to do something," said one dealer. "But over the past couple of weeks there's been more kite flying than you'd see on Hampstead Heath on bank holiday Monday."

Comments from Dresdner Kleinwort Benson *highlighted its bullish stance on* information technology company RM. Press reports said the government was soon to announce a £430m commitment to IT in schools.

Mark Loveland, IT analyst at the broker, told clients: "The UK is the test-bed for the world with regard to the fast penetration of technology into education. RM, therefore, *has* the opportunity to turn its UK leadership into world leadership in this field in the longer term, and in the interim the increased spending will provide domestic growth. With the price at current levels, it may not be the best time to go after the stock."

The shares, which are expected to be promoted from the SmallCap to the FTSE 250 when Sedgwick exits, rose 2½ to 402½p.

The break-up of building materials group Heywood Williams would produce proceeds approaching 300p a share, said David Taylor at Teather & Greenwood. The stock rose 6½ to 195½p.

Mr Taylor said: "On just about every criterion, the shares are an excellent value investment."

Pilks in demand

Pilkington gained 3 to 77½p as Franklin Resources, the US investment group, said it had bought 200,000 shares, taking its stake to 15 per cent. The stock was at 148p earlier this year.

Blacks Leisure was up 17½ at 254p as idle bid talk went *the rounds. A possible preda*tor mentioned was Arcadia, which was firmer at 289p, although the possibility of an offer from a private group was mentioned.

The defensive qualities of AB Foods were said to be behind its strong rise. Shares in the food group moved against the falling tide to chalk up an advance of almost 5 per cent or 27 to 597p, one of the best in the Footsie.

Strong results last week prompted a raft of positive broker comments. Among them was Carl Short at SG Securities, who highlighted the stock's attractions to investors in the current market environment.

Mr Short focused on cash generation and the production of staple products that would be relatively protected from a weakening of consumer demand in an economic slowing. He said the defensive qualities of the company meant the stock deserved a premium rating, whereas on his figures it was on a market multiple. Any weakening in sterling expected in the run-up to sterling's entry to the euro would benefit AB Foods.

Robert Wiseman, the dairy *group, was up 3 at 186½p* after results at the top end of expectations.

Graham Jones at Dresdner Kleinwort Benson told clients the company had several advantages over competitors, as it had lower costs and no exposure to the market for doorstep deliveries of milk.

Although the doorstep *market was providing high* profits for other dairy groups, it was shrinking by 5 per cent a year while supermarket demand, in which Wiseman was strong, was growing by 5 per cent a year.

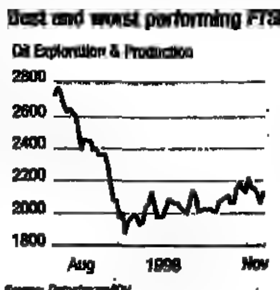
Classically defensive water stocks bubbled higher on little volume. The sector has been the worst performer in the market since the start of *the fourth quarter as inves*tors have sold the sector down following the latest regulatory review. Severn Trent gained 27 to £10.30 and Thames Water 18 to £11.28.

British Airways ended unchanged at 405p after interim figures. Some 12m shares were dealt and the stock was down 17 at 388p in the morning.

The interim figures prompted downgrades, with some analysts cutting to £400m for the year.

Best and worst performing FTSE sectors

Oil Exploration & Production



Insurance

Source: Datastream/ICV

FT 30 INDEX

	Nov 9	Nov 6	Nov 5	Nov 4	Nov 3	Yr ago	*High	*Low
FT 30	3320.8	3347.4	[illegible]	3421.2	3364.6	3135.1	4004.9	2790.8
Ord. div. yield	3.17	3.15	3.16	3.08	3.14	3.62	4.22	2.72
P/E ratio net	21.12	21.30	21.22	21.73	21.34	20.35	25.41	15.80
P/E ratio nil	21.00	21.21	21.13	21.64	21.26	20.06	25.19	15.71

FT 30 since compilation: high 4004.9 15/07/98: low 49.4 26/06/40 Base Date: 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3347.4	3337.3	3303.2	3310.7	3314.7	3311.4	3310.8	3315.1	3349.5	3294.5

STOCK MARKET TRADING DATA

	Nov 9	Nov 6	Nov 5	Nov 4	Nov 3	Yr ago
SEAQ bargains	63,628	64,130	71,891	77,149	80,167	46,050
Equity turnover (£m)†	-	2620.1	3076.1	3224.8	3232.7	2618.8
Equity bargains†	-	61,366	57,887	60,130	68,265	41,175
Shares traded (ml)†	-	748.0	977.0	967.3	993.8	992.8
Total market bargains‡	-	n/a	73,335	75,175	86,096	-
Total turnover (£m)‡	-	n/a	4215.4	4457.1	4434.0	-
Total shrs traded (ml)‡	*708.7	n/a	1219.8	1283.7	1267.3	-
Tradepoint turnover (£m)	13.7	24.6	28.0	28.5	28.7	23.6
Tradepoint shrs traded(m)	5.5	12.0	11.9	12.5	9.8	8.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	687	Total Highs	30	Total contracts	18,595
Total Falls	820	Total Lows	41	Calls	8,567
Same	1,145			Puts	10,028

Nov 9 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5540.0	5448.0	–82.0	5563.0	5432.0	20841	n/a
Mar	5505.0	5492.5	–82.5	5505.0	5494.5	370	n/a
Jun	-	5538.5	–82.0	-	-	0	n/a

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4949.0	–7.0	-	-	0	n/a

FTSE 100 INDEX OPTION (LIFFE) (*5402) £10 per full index point — Nov 9

	5200 C	5200 P	5300 C	5300 P	5350 C	5350 P	5400 C	5400 P	5450 C	5450 P	5500 C	5500 P	5550 C	5550 P	5600 C	5600 P
Nov	[illegible]															
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Jun†	[illegible]															

Calls 1,214 Puts 1,078

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Nov 9

	5225 C	5225 P	5275 C	5275 P	5325 C	5325 P	5375 C	5375 P	5425 C	5425 P	5475 C	5475 P	5525 C	5525 P	5575 C	5575 P
Nov	[illegible]															
Dec	[illegible]															
Jan	[illegible]															
Mar	[illegible]															
Jun†	[illegible]															

Calls 6,047 Puts 7,397 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 9	% chg on day	Nov 6	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	1135.35	–1.4	1155.70	1251.87	1.85	1140.32	1351.57	761.58
Regional Indices								
Africa (9)	1500.68	3.3	1453.14	1250.07	3.52	1505.01	1458.04	785.00
Australasia (9)	1323.34	3.3	1278.19	1234.65	2.36	1327.85	1800.83	815.83
Americas (11)	1088.12	–5.1	1164.84	1213.20	0.57	1088.50	1317.41	647.66

FTSE Actuaries Share Indices — **The UK Series**

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 9	Day's chge%	Nov 6	Nov 5	Year ago	Gross yield%	Net yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5433.9	–1.0	5491.0	5479.5	4806.8	2.98	2.83	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	4934.9	–0.1	4942.1	4928.8	4640.8	3.61	3.08	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex Inv Tr	4976.1	.....	4976.7	4961.9	4679.4	3.74	3.16	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2601.9	–0.9	2625.2	2619.8	2327.8	3.07	2.62	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex Inv Tr	[illegible]										
FTSE 350 Higher Yield	[illegible]										
FTSE 350 Lower Yield	[illegible]										
FTSE SmallCap	[illegible]										
FTSE SmallCap ex Inv Tr	[illegible]										
FTSE All-Share	[illegible]										
FTSE All-Share ex Inv Tr	[illegible]										

FTSE Actuaries Industry Sectors

	Nov 9	Day's chge%	Nov 6	Nov 5	Year ago	Gross yield%	Net yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(28)	[illegible]										

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]									
FTSE 250	[illegible]									
FTSE 350	[illegible]									
FTSE SmallCap	[illegible]									
FTSE All-Share	[illegible]									

Further information is available on http://www.ftse.com.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]			

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 9 / Sch)

BELGIUM/LUXEMBOURG (Nov 9 / Frs.)

CZECH REP (Nov 9 / Korunas)

DENMARK (Nov 9 / Kr)

FINLAND (Nov 9 / Mkk)

FRANCE (Nov 9 / Frs.)

GERMANY (Nov 9 / Dm.)

GREECE (Nov 9 / Drachma)

ITALY (Nov 9 / Lira)

NORWAY (Nov 9 / Kroner)

SWEDEN (Nov 9 / Kronor)

SWITZERLAND (Nov 9 / Frs.)

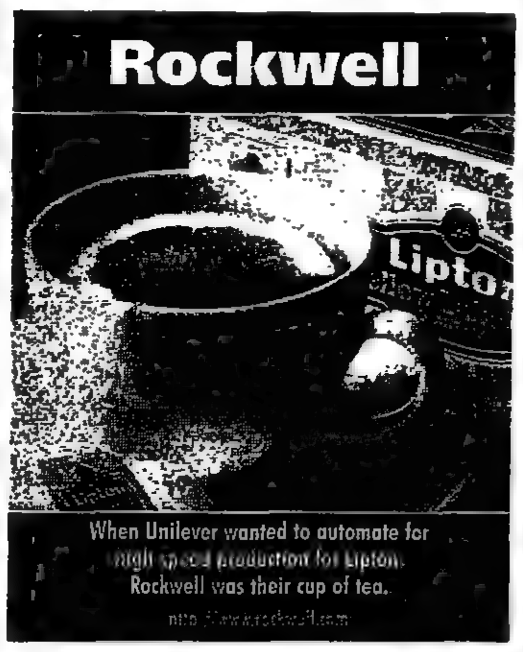
POLAND (Nov 9 / Zloty)

PORTUGAL (Nov 9 / Escudo)

SPAIN (Nov 9 / Pta.)

NETHERLANDS (Nov 9 / Fls.)

TURKEY (Nov 9 / TL Lira)



PACIFIC

JAPAN (Nov 9 / Yen)

HONG KONG (Nov 9 / H.K.$)

INDONESIA (Nov 9 / Rupiah)

MALAYSIA (Nov 9 / MYR)

NEW ZEALAND (Nov 9 / NZ $)

SINGAPORE (Nov 9 / S$)

SOUTH KOREA (Nov 9 / Won)

TAIWAN (Nov 9 / TW $)

THAILAND (Nov 9 / Baht)

AUSTRALIA (Nov 9 / Aust$)

AMERICAS

CANADA

TORONTO (Nov 9 / Can $) 4 pm close

MONTREAL (Nov 9 / Can $) 4 pm close

MEXICO (Nov 9 / Peso) 12.30pm

AFRICA

SOUTH AFRICA (Nov 9 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 6 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 5 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	196.31	1.1	175.06	146.81	169.65	206.02	0.9	3.69	194.15	173.13	143.66	167.38	204.14	219.96	163.66	210.76
Austria (22)	190.76	-0.3	170.12	142.66	164.86	164.74	0.9	2.12	191.38	170.60	141.56	164.90	164.78	233.73	166.45	199.18
Belgium (22)	380.93	-0.2	339.70	284.89	329.20	322.12	0.0	2.10	381.76	340.44	282.50	329.09	322.04	398.52	242.42	246.82
Brazil (32)	167.25	2.2	149.15	125.09	144.54	365.76	2.1	2.44	163.61	149.90	121.07	141.04	358.05	290.24	102.68	224.16
Canada (119)	196.82	-0.5	175.60	147.26	170.18	219.05	0.2	1.53	197.93	176.51	146.47	170.62	217.71	248.78	158.94	220.24
Denmark (34)	474.41	1.1	423.07	354.79	409.99	407.76	1.3	1.71	469.42	418.61	347.36	404.65	402.44	507.33	408.26	413.46
Finland (28)	453.20	0.0	404.15	338.93	391.66	480.79	0.2	1.90	453.00	403.98	335.21	390.50	479.52	596.45	267.58	319.88
France (76)	303.54	-0.3	270.69	227.01	262.32	265.39	-0.1	2.35	304.52	271.56	225.34	262.50	265.54	345.18	222.08	228.95
Germany (55)	271.55	0.3	242.16	203.08	234.68	234.68	0.5	1.78	270.81	241.50	200.40	233.45	233.45	325.61	208.89	218.80
Greece (35)	284.03	-0.3	253.29	212.41	245.46	567.31	-0.1	1.53	284.84	254.01	210.77	245.54	567.69	333.20	211.47	–
Hong Kong, China (67)	313.85	-1.2	279.98	234.79	271.32	312.09	-1.2	4.10	312.74	283.35	235.12	273.90	315.83	398.07	198.64	380.58
Indonesia (26)	39.67	0.8	35.37	29.66	34.28	201.07	-1.3	1.58	30.36	35.10	29.12	33.93	204.83	130.04	19.04	130.04
Ireland (16)	470.22	0.1	410.83	351.85	406.37	442.52	0.3	2.14	469.86	419.11	347.77	405.13	441.10	503.44	373.47	390.85
Italy (53)	[illegible]	0.6	139.50	116.99	135.19	182.08	0.8	1.45	155.58	138.67	115.07	134.05	180.45	184.80	105.79	109.31
Japan (446)	96.45	-2.5	86.01	72.13	83.35	72.13	-1.5	1.04	98.95	88.24	73.22	85.30	73.22	109.73	76.83	107.16
Mexico (29)	1221.70	0.7	1089.48	913.65	1055.80	13342.71	0.7	1.81	1213.25	1081.95	897.75	1045.85	13255.85	1803.07	767.16	1589.84
Netherlands (27)	477.09	0.3	425.45	356.79	412.30	408.17	0.5	2.28	475.87	424.37	352.13	410.21	406.02	582.38	391.08	405.97
New Zealand (16)	60.89	-0.5	54.30	45.53	52.62	60.01	-0.4	4.92	61.17	54.55	45.27	52.73	60.23	89.56	45.88	88.58
Norway (38)	236.03	-1.4	210.48	176.51	203.96	236.51	-1.9	2.54	239.45	213.56	177.21	206.43	238.97	357.71	181.86	359.54
Philippines (22)	79.05	2.3	70.49	59.12	68.31	157.28	2.3	0.98	77.28	68.92	57.19	66.63	153.88	106.88	42.48	88.98
Portugal (18)	260.06	-0.4	231.91	194.48	224.74	303.34	-0.1	1.86	260.99	232.74	193.13	224.98	303.73	298.38	194.13	–
Singapore (41)	190.53	-2.4	169.91	142.48	164.66	143.79	-1.4	2.13	195.26	174.12	144.49	168.32	145.81	284.82	102.45	253.98
South Africa (38)	224.00	1.5	199.76	167.52	193.58	286.04	-0.3	3.45	220.60	196.73	163.24	190.17	280.43	348.20	151.55	294.75
Spain (30)	373.64	0.8	333.20	279.43	322.90	400.08	1.0	1.99	370.66	330.72	274.43	319.69	396.10	417.73	241.06	254.22
Sweden (46)	483.26	0.3	430.96	361.41	417.64	558.63	0.7	2.08	481.87	429.72	356.58	415.38	554.71	628.19	376.18	405.54
Switzerland (30)	388.37	0.7	346.34	290.44	335.63	329.19	1.3	1.60	385.53	343.81	285.29	332.34	324.87	438.48	307.73	316.12
Thailand (35)	23.30	-1.5	20.78	17.43	20.14	33.13	-0.8	2.85	23.65	21.09	17.50	20.39	33.39	55.62	8.15	34.71
United Kingdom (206)	355.82	0.2	317.31	266.10	307.50	317.31	0.2	3.09	355.14	316.70	262.80	306.14	316.70	401.84	307.96	324.18
USA (621)	466.97	0.6	416.49	349.22	403.56	466.97	0.6	1.40	464.16	413.93	343.47	400.12	464.16	485.88	369.13	392.43
Americas (801)	416.56	0.8	371.48	311.53	359.99	353.21	0.6	1.43	414.16	369.35	306.48	357.03	351.10	437.05	335.19	348.17
Europe (738)	335.85	0.2	299.59	251.24	290.33	302.48	0.5	2.22	335.16	298.89	248.01	288.91	301.15	386.24	272.02	279.87
Eurobloc (347)	97.65	0.2	87.08	73.02	84.39	91.32	0.4	1.88	97.48	86.93	72.14	84.03	90.94	113.28	81.50	–
Nordic (146)	450.05	0.2	401.35	336.57	388.94	443.45	0.6	2.02	449.85	400.36	332.21	387.00	440.85	555.97	380.94	428.18
Pacific Basin (730)	104.37	-2.1	93.08	78.05	90.20	90.52	-1.2	1.88	106.57	95.03	78.86	91.86	91.53	119.48	82.86	118.82
Euro-Pacific (1468)	200.60	-0.5	178.90	150.02	173.36	163.75	-0.1	2.04	201.52	179.71	149.12	173.72	163.85	220.19	166.00	185.90
North America (740)	448.84	0.5	400.27	335.67	387.89	449.88	0.6	1.82	446.33	398.02	330.27	384.74	447.25	468.20	359.18	372.35
Europe Ex. UK (530)	314.53	0.5	280.49	235.22	271.82	286.13	0.6	1.80	313.72	279.77	232.15	270.44	284.51	365.32	242.12	250.08
Europe Ex. Eurobloc (391)	91.27	0.3	81.39	68.26	78.88	89.72	0.5	2.58	90.99	81.14	67.33	78.44	89.28	103.83	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	92.57	0.6	82.55	69.23	80.00	87.43	1.1	1.58	92.07	82.10	68.13	79.36	86.52	109.21	75.16	–
Pacific Ex. Japan (284)	179.84	-0.2	160.37	134.49	155.42	182.79	-0.2	1.73	180.19	160.69	133.34	155.33	183.10	221.88	128.26	221.58
World Ex. Eurobloc (1961)	98.03	0.1	87.42	73.31	84.72	96.62	0.3	1.67	97.92	87.32	72.46	84.41	96.35	103.16	83.08	–
World Ex. US (1687)	200.96	-0.4	179.21	150.29	173.67	169.07	0.0	2.04	201.80	179.96	149.33	173.95	169.13	221.01	165.85	189.08
World Ex. UK (2100)	280.08	0.1	249.77	209.46	242.05	249.03	0.3	1.55	279.77	249.49	207.02	241.16	248.25	288.82	234.24	244.39
World Ex. Japan (1862)	381.34	0.4	340.06	285.18	329.55	330.31	0.5	1.78	379.87	338.58	280.95	327.28	357.41	411.23	312.98	334.40
The World Index (2308)	286.61	0.1	255.59	214.34	247.69	255.36	0.3	1.70	286.27	255.28	211.83	246.77	254.59	306.56	241.30	251.63

Emerging markets:

IFC Investable indices

Dollar terms

4 pm close November 9

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 6	Nov 5	Nov 4	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8975.46	8915.47	8783.14	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.34	106.50	106.53	107.02 (5/10)	104.42 (11/5)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	2988.48	2980.52	2913.98	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	307.05	307.05	305.96	320.51 (8/10)	262.86 (9/1)	320.51 (8/10/98)	10.53 (8/7/32)

Ind. Day's high 9042.40 (8943.78) Low 8891.02 (8876.55) (Theoretical) Actual high 8990.81 (8917.27) Low 8897.19 (8714.91) (Actual)

Standard and Poors	Nov 6	Nov 5	Nov 4	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1141.00	1133.68	1118.67	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1359.25	1348.09	1332.99	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial‡	125.31	125.10	122.26	147.98 (14/7)	95.80 (8/10)	147.98 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	565.10	562.18	556.14	608.76 (17/7)	477.20 (8/10)	608.76 (17/7/98)	4.64 (25/4/42)
Amex Comp	670.80	668.02	665.50	753.67 (22/4)	583.75 (8/10)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Comp	1856.58	1837.10	1823.57	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	400.32	396.79	392.98	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Nov 6	Oct 30	Oct 23	Year ago
Dow Jones Ind. Div. Yield	1.68	1.75	1.77	1.76
	Nov 4	Oct 28	Oct 21	Year ago
S & P Ind. Div. yield	na	1.36	1.36	1.50
S & P Ind. P/E ratio	na	31.32	31.24	25.29

US DATA

MARKET ACTIVITY

Volume (million)	Nov 6	Nov 5	Nov 4
NYSE	683.150	770.210	861.190
Amex	23.701	25.056	31.113
NASDAQ	847.785	921.725	1,063.8

NYSE	Nov 6	Nov 5	Nov 4
Issues Traded	3,529	3,511	3,531
Rises	1,789	1,786	2,061
Falls	1,330	1,287	1,002
Unchanged	410	[illegible]	468
New Highs	88	[illegible]	50
New Lows	31	24	101

NYSE TRADING ACTIVITY

Volume : 683,150,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Iomega Cp	12,287,600	8⅝	-⅛
Citigrp	11,188,200	48	+1
Chrysler	8,519,500	50¾	-1⅛
Compaq	7,014,300	31¾	+⅛
Safeway	5,731,400	48¾	+2⅞
LucentTch	5,634,000	90¾	+2⅛
WellsF	5,126,700	40	+¾
AT&T	5,114,100	63¾	+1⅛
WalMart	4,614,700	71⅛	+1⅛
Monsnto	4,522,900	39½	+¾

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Mid Atl M	10⅝	+1⅞	+21.8
Luxottica	11⅞	+2	+20.4
ChiqBrnds	12⅛	+1⅛	+13.1
MetMid	16⅞	+1⅞	+11.1
Downs			
Primark	22⅞	-2⅛	-9.5
KLM R Dtch	28⅛	-2⅞	-8.8
Placer Dom	16⅛	-1⅜	-7.9
Schwab	54⅝	-3¾	-6.4

NASDAQ TRADING ACTIVITY

Volume : 941,785,000

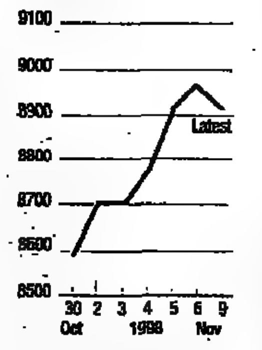
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	18,640,000	65⅞	+¾
Micsft	18,596,100	108⅛	+2⅜
PaftSn	18,594,800	12⅞	-⅛
Intel	16,170,000	95⅛	+1⅛
CiscoSys	13,959,000	67⅛	-⅛
AppMat	11,257,600	36⅞	+2⅛
Oracle	8,821,800	31⅛	-⅛
WorldCm	8,811,500	55⅞	-⅛
SunMic	8,125,200	61⅛	+2⅛
AscendCom	7,673,800	46⅛	-⅛

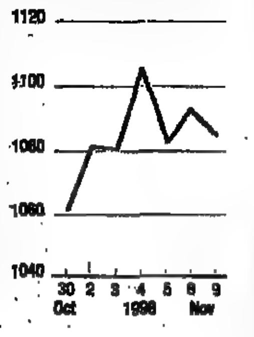
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Cmplnz	28⅝	+5	+21.2
StabSys	27⅛	+4⅛	+19.5
AspectT	19⅝	+3	+18.2
Intkomi Cp	105⅛	+15⅛	+17.5
Downs			
Recoton	19⅛	-3⅛	-15.7
AgriBiotec	11⅛	-1⅛	-11.3
Avirex	20⅛	-2⅛	-8.5
COR Thrpts	10⅛	-⅞	-7.7

Dow Jones



FTSE Eurotop 300



JAPAN

	Nov 9	Nov 6	Nov 5	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	14194.54	14121.97	14341.37	17264.34	12879.97	38915.9	85.25

Day's high 14362.66. Day's low 14083.27

TOKYO TRADING ACTIVITY

Volume : 290,000,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AshiCp	8,628,000	67	+11
Sakura	7,868,000	326	
YasTrB	7,044,000	134	-2
NpStl	6,888,000	215	
FujiBk	6,318,000	491	-17
Toshiba	6,194,000	593	+26
BTokM	4,613,000	1165	-38
Nomura	4,185,000	1035	+19
SumTrB	4,085,000	365	-7
YasktB	3,914,000	208	+16

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
NHK Sp	335	+80	+31.4
AshiCp	67	+11	[illegible]
GoStns	250	+20	+8.7
YasktB	208	+16	+8.3
Downs			
MatHse	1020	-95	-8.5
ToCmMr	241	-19	-7.3
NshnSt	110	-8	-6.8
SekChm	675	-45	-6.2

FRANCE

	Nov 9	Nov 6	Nov 5	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3585.32	3588.63	3596.18	4388.48	2862.54	4388.48	984.61

Day's high 3620.70 Day's low 3556.82

PARIS TRADING ACTIVITY

Volume : 485,894,510

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Alctel	1,253,212	600	-15
FrTele	1,160,992	370	+1.5
RhonPA	879,100	271	-4.2
Usinor	795,112	65.2	-1.5
Axa	721,550	646	-16
Metrn B	707,039	246.7	[illegible]
Rhodia	562,768	95	+5.1
BNP	490,069	357	+7.9
Lgrdr	482,312	215.6	-13.4
Renault	461,905	238.2	+1.2

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Rhodia	95	+5.1	+5.7
SGE	270	+13	+5.1
GrpGTM	700	+32	+4.8
Syntbl	1079	+48	+4.7
Downs			
CrFonF	93	-6.65	-6.7
Valbc	251	-16.9	-6.3
SAT	1981	-129	-6.1
Lgrdr	215.6	-13.4	-5.9

GERMANY

	Nov 9	Nov 6	Nov 5	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4768.58	4836.22	4811.60	6171.43	3896.08	6171.43	971.15

Day's high 4884.17 Day's low 4745.20.

FRANKFURT TRADING ACTIVITY

Volume (m)

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Cmmzbk	1,285,400	54.95	+1.85
Dt Bk	520,990	104	-3.55
Bayer	426,601	67.1	-0.85
BASF	356,240	66.4	-0.5
Siemns	348,085	109.9	-1.1
H'chst	332,057	74.5	+0.1
Mannsm	250,798	189.5	-4
Lufthn	208,830	36.8	-0.1
VW	200,123	130.2	-2.8
Veba	172,664	94.1	-2.4

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Fresenius	275	+15	+5.5
Porsche	3685	+160	+4.6
SchLub	257	+11	+4.5
Ruetgs	275	+10	+3.8
Downs			
Trikett	23.8	-2.35	-9.0
Budrus	690	-43	-5.9
Varta	270	-14	-4.9
B'stoff	103.5	-5	-4.6

UK

	Nov 9	Nov 6	Nov 5	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5433.9	5491.0	5479.8	6179.00	4648.70	6179	986.9

Day's high 5507.1 Day's low 5399.1,

LONDON TRADING ACTIVITY

Volume : 706,700,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Br Petroleum	21,170,410	881	-18
Emerald Eng	18,320,750	6	-1¼
Shell	15,072,420	361	+1
ASDA	13,658,280	165	+1½
Br Airways	12,048,860	405	
Bidcon	11,015,260	143½	-2½
Br Telecom	10,653,090	832	+17½
BTR	10,625,200	108½	-2½
Tesco	9,012,605	173½	-2½
Mks&Spencer	7,908,118	418	+11½

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Tamaris	41½	+8½	+25.8
Allied Carpet	54½	+8	+17.2
DCC	435	+60	+16
Frontline	400	+50	+14.3
Downs			
Churchill Chn	87½	-30	-25.5
Liberty	155	-23	-12.9
Molins	110	-12½	-10.2
Fibernet	341½	-35	-9.3

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	1146.40	1137.80	-10.20	1149.30	1137.80	111,838	405,240
Mar	1153.50	1149.00	-9.90	1155.00	1149.00	1,390	12,662
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	14240.0	14230.0	+40.0	14370.0	14070.0	21,422	186,784
Mar	14250.0	14150.0	-40.0	14250.0	14070.0	26	7,587

CAC-40	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Nov	3607.0	3590.0	-	3639.0	3565.0	54,231	213,358
Dec	3624.5	3598.0	-0.5	3635.5	3579.0	1,832	79,573
DAX							
Dec	4890.0	4780.0	-44.0	4924.0	4750.0	19,994	81,879
Mar	4906.5	4820.0	-46.5	4922.5	4795.0	411	2,865

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	652.00	635.00	-11.00	653.00	635.00	13,005	214,739
Dec	652.00	640.50	-6.50	652.00	640.50	287	4,368
IBEX35							
Dec	6775.0	6646.0	-30.0	6789.0	6630.0	21,669	161,261
Mar	6790.0	6570.0	-35.0	6790.0	6569.0	348	4,848

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Nov 9	Nov 6	Nov 5	1998 High	1998 Low	Yield	P/E
Argentina	General	18988.73	19026.52	19196.34	29488.47 23/3	12308.14 10/9	3.37	12.80
Australia	All Ordinaries	2699.1	2697.3	2672.4	2861.40 18/4	2458.20 1/9	3.13	20.40
	All Mining	639.1	647.0	629.9	713.10 23/4	499.80 31/8		
Austria	Credit Aktien	(u)	(u)	393.61	584.34 29/5	345.44 8/10	1.97	12.80
	ATX Index	1145.86	1154.95	1156.05	1628.56 29/5	982.06 1/10		
Hungary	Bux	5743.38	5740.79	5954.42	8916.36 23/4	3776.02 21/9	na	na
India	BSE Sens.	2883.67	2894.37	2842.51	4280.96 21/4	2764.16 20/10		
	Cred 500	587.77	574.14	568.64	815.52 21/4	597.68 20/10	na	na
Indonesia	Jakarta Comp.	364.39	353.97	355.52	554.10 2/2	256.83 21/9	2.83	22.40
Ireland	ISEQ Overall	4422.64	4434.51	4427.63	5471.61 21/4	3748.11 8/10	2.17	18.80
Portugal	BVL 30	4810.55	4840.58	4836.10	8176.89 22/4	3698.08 2/10	2.05	26.60
	PSI 20	11009.21	11075.22	11053.56	14292.99 22/4	8114.51 2/10		
Russia	RTS	na	61.12	60.37	411.51 5/1	38.59 5/10	na	na
Singapore	SES All-S'pore	348.51	353.65	357.60	437.98 19/3	283.20 4/9	2.40	18.50
	Straits Times	1219.78	1283.78	1299.82	1686.75 19/3	805.04 4/9		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Argentina: Market weak at midsession in line with regional bout of profit-taking.

Australia: RBA's semi-annual statement on monetary policy indicating no need for easing helped All, but failed to inspire equities.

Austria: Weakness in banking shares overwhelmed a recovery in steel shares sending the market into negative territory.

Hungary: Market closed flat, consolidating after recent strong gains and expected correction in Dow.

India: Shares added sharply higher, drawing support from partial easing of US sanctions against India and Pakistan.

Indonesia: Telkom rose 2.9 per cent and Indosat jumped 6.8 per cent while rises currently outnumbered falls.

Portugal: Motorway group Brisa and insurer Mundial Confiança bucked lower trend, indicating continued buying interest in market.

Singapore: Jump in interest rates sent chill through the markets. Properties tumbled 7.8 per cent and financials fell 5.7 per cent.

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THE NASDAQ STOCK MARKET

4 pm close November 9

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THE NASDAQ STOCK MARKET

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AMEX PRICES

4 pm close November 9

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STOCK MARKETS

Investors take profits in lacklustre bourses

WORLD OVERVIEW

With at least a week before the Federal Reserve has the chance to cut interest rates again, world equity markets decided to take some profits after the powerful rally that began a month ago, *writes Philip Coggan.*

There were some supportive factors for stocks, including talk that the International Monetary Fund was close to agreeing a funding package for Brazil. The dollar also made progress against the D-Mark and the yen, in part because the resignation of Newt Gingrich as House speaker was seen as making President Clinton's survival more likely.

But the dollar's rise was also a sign foreign exchange markets were getting back to normal after the big unwinding of speculative positions that drove the US currency down last month.

In Europe, the proposed merger between Ciba Speciality Chemicals and Clariant and the launch of the second tranche of France Telecom indicated the recovery of confidence in that region's markets.

But none of this was able to bolster some fairly lacklustre markets yesterday. On Wall Street, the Dow Jones Industrial Average retreated in early trading, rather than mount the assault on the 9,000 level that many had been hoping for. In Hong Kong, the Hang Seng index fell back below 10,000. Europe drifted lower, with most markets falling less than 1 per cent.

The latest Merrill Lynch/Gallup survey of global fund managers found, to no-one's great surprise, that institutional investors have been cutting their cash levels and moving back into equities.

Despite the recent rally, a net balance of 25 per cent of European fund mangers think the markets in their region are undervalued and a net 20 per cent of US fund managers are planning to raise their exposure to domestic equities.

At Dresdner Kleinwort Benson, the global strategy team led by Albert Edwards is reversing its recent tactical move out of bonds and into equities. "The recent surge in equities is sufficient to recommend a return to a minimum recommended equity exposure."

"In our view, the fundamental backdrop for US equities remains poor, although not necessarily catastrophic as long as recession can be averted. What is potentially catastrophic are the bloated expectations still embedded within equity prices," the team said.

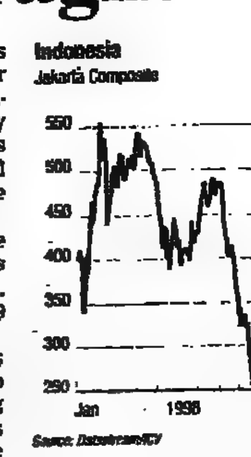
"But it is not the cyclical denial about the earnings outlook next year that is our primary worry. What really concerns is . . . the market remains convinced 'new era' earnings growth is attainable in the longer run."

EMERGING MARKET FOCUS

Jakarta rally looks fragile

Indonesia's stock market has been taking a roller coaster ride and analysts are warning that last week's recovery may be undone just as quickly this week if political unrest undermines fragile investor confidence.

The Jakarta composite index built on last week's 17.6 per cent rally yesterday, ending another 10.41 or 2.9 per cent higher at 364.39.



Many foreign brokerages cashed in last week on a dip in the rupiah and falling interest rates to buy shares cheaply, as news that the International Monetary Fund had approved another $960m tranche of standby credits provided further encouragement.

Some analysts suspected, however, the government was also buying shares through foreign brokerages, presumably to boost the index ahead of a special session of the People's Consultative Assembly that starts today.

The market's recent surge may look impressive, but an earlier rally in September and October, which took prices up by 76 per cent, quickly lost momentum. Trading has remained thin, driven by the rupiah and by rumours about takeovers that have yet to materialise.

Analysts have cautioned that investors will pay more attention this week to student protests outside parliament than to third-quarter results because a recurrence of riots could undo the rupiah's recovery and wipe out any gains in dollar terms. "It could go horribly wrong," one research director said. "It's better to stay on the sidelines."

One important reason for the recent recovery is that some heavyweight stocks beat pessimistic expectations for their results. The currency depreciation boosted the rupiah value of dollar revenues, giving particular impetus to partially privatised companies such as mining group Tambang Timah.

The rupiah's rebound, though well short of a real recovery, eased the foreign debt burden for many companies. Telekomunikasi Indonesia, the telephone utility, yesterday reported net profits of Rp326.1bn for the first nine months, compared with a Rp1,176.7bn loss in the first half.

Consumer demand has also held up better than expected, boosting demand for cigarette and food companies. Indofood, the noodle producer of the Salim group, reported at the weekend that it was able to pass on much of the added cost of production to customers. Sales were down in units but almost doubled in rupiah terms, allowing gross margins to double.

Donald Hanna, director for economic research for Asia at Goldman Sachs, said Indonesian shares remained risky but, assuming a reasonably strong rupiah, some could be attractive. "For those people who have to hold Asian equities, it's basically a cheap option."

"Most of our clients have simply scraped Indonesia off the map until parliamentary elections next May," said a member of a rival brokerage as he packed his belongings to move to Singapore. "They won't even look at it."

Sander Thoenes

Airline stall leaves Dow spinning lower

AMERICAS

A sell-off in banking and airline shares spread through Wall Street, and by midday most sectors were feeling the pinch, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average was down 85.73 to 8,589.73, while the broader Standard & Poor's 500 index had lost 12.96 to 1,128.06.

"There's a little profit-taking going on, and 9,000 on the Dow may present a bit of a psychological challenge," said Bill Meehan, chief market analyst at Cantor Fitzgerald. He said it was unlikely the sell-off would be long-lasting, given the number of investors still wanting to come into the market and the widespread belief that the Federal Reserve will lower interest rates at its November 17 meeting.

Small-cap and high-tech stocks were also down, although with less force than the blue-chip sector. The Nasdaq composite lost 10.11 to 1,846.45, and the Russell 2000 of small-company shares fell 1.58 to 398.74.

Much of the day's selling came against the background of rating changes by analysts. Airline stocks took a tumble after Goldman Sachs lowered earnings estimates for next year for all US carriers. Goldman cut AMR and US Airways from "outperform" to "market perform". AMR, parent of American Airlines, lost $2⅞ or 4.4 per cent to $63⅞, while US Airways was down $2⅛ to $50⅛. Others fell sharply as well, with Continental Airlines off more than 6 per cent to $40⅛.

It was a nervous morning for banking shares. PaineWebber cut Mellon Bank and PNC to "neutral" from "outperform". Mellon's shares lost $2⅝ to $60⅝, while PNC fell $2¼ to $49¾. Citigroup was down $1⅜ to $44⅜ after the resignation of another key executive.

As equities were sold off US Treasuries rallied, turning around a morning of losses to an afternoon of gains. The benchmark 30-year bond had gained 1½ by early afternoon to 96⅞, sending the yield lower to 5.319 per cent.

AT&T shares managed to push slightly higher, up $1⅛ to $64⅛, helped by a rating upgrade by PaineWebber and Lehman Brothers.

TORONTO fell back after last week's rally, with the 300 composite index down 92.91 or 1.5 per cent to 6,335.00.

All 14 sub-indices lost ground, led by gold and precious minerals, which fell 2.7 per cent, and financial shares, down 2.1 per cent.

Gold shares were dragged down by weak bullion prices. Placer Dome fell 80 cents to C$24.25, while Barrick Gold lost 65 cents to C$33.15.

Bank of Montreal fell C$2.20 to C$59.60 and Bank of Nova Scotia declined 80 cents to C$31.20.

Alcan Aluminium rose C$1.25 to C$43.25 after signing a 10-year supply deal with General Motors.

SAO PAULO traded cautiously ahead of the government's presentation to congress of its revised 1999 budget. The Bovespa index fell 23 to 8,192 although traders said investors remained optimistic after last week's 26 per cent rise.

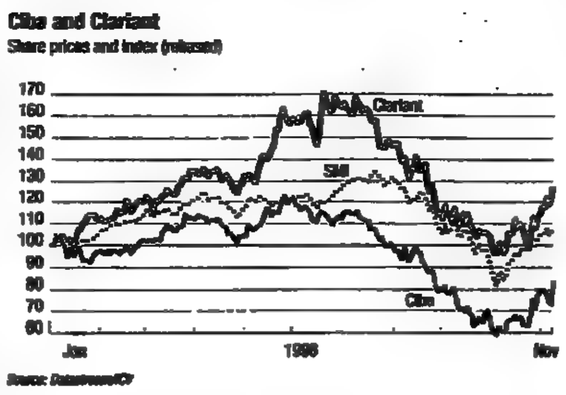
The budget is to be adjusted to match the government's three-year austerity plan presented two weeks ago, and will make cuts in education health and infrastructure.

MEXICO CITY followed Wall Street lower and the IPC index fell 76.92 or 1.8 per cent to 4,210.02.

Zurich sees chemical reaction

EUROPE

News of the planned megamerger between Ciba Speciality Chemicals and its rival Clariant, which would create the world's biggest speciality chemicals company, sent both groups soaring in **ZURICH**.



Ciba shot up 30 per cent in early trade before settling back to close SFr17.75 or 14 per cent higher on the day at SFr144.75. Clariant, up 16 per cent early on, finished with a gain of SFr30 or 4 per cent at SFr770.

The new Clariant will have annual sales of about SFr18bn if shareholders and regulators give the go-ahead to what the companies say is a "merger of equals". Final agreement is expected next month.

Analysts were mostly upbeat about the plan, pointing to potential synergies that the companies say will lead to more than SFr600m in annual pre-tax savings by the end of 2001.

The FTSE Eurotop 300 index fell 2.72 to 1,084.81.
See Euro Prices page

Derivatives-related trade and speculation that some hedge funds were unwinding positions in Europe kept the lid on the rest of the market. The SMI index turned back from a high of 6,784.7 to close flat, 1.8 higher at 6,651.1.

FRANKFURT turned back in line with many of its neighbours as Wall Street headed lower after a day enlivened by activity in its chemicals sector. The Xetra Dax index finished 47.35 lower at 4,762.38.

Pharmaceuticals and chemicals group Hoechst was an early gainer, rising to a 12-week high as news of the Swiss merger sparked renewed speculation about further consolidation in the sector. The shares ran up to a high of DM77.50 before turning back to close 60 pfg lower at DM73.50.

Analysts noted that Hoechst, which owns 45 per cent of Clariant and is due to report nine-month figures next week, was one of the most heavily traded stocks of the day.

Henkel, which announced a 17 per cent rise in nine-month net profit, also gained ground with a rise of DM2.40 to DM141.

BASF, due to report results today, closed flat at DM66, off a high of DM68.95, while Bayer, with results tomorrow, turned back from an intraday DM69.77 to close 50 pfg weaker at DM67.45.

In the banking sector Commerzbank put on DM1.80 to DM54.50. The bank confirmed after the market closed speculation that it planned a cross-shareholding deal with Italian insurer Generali.

The action was said to be aimed at thwarting an attempt by Deutsche Bank to halt a possible merger between Banca Commerciale Italiana and Banca di Roma. Deutsche eased DM1.95 to DM104.05.

PARIS edged lower as investors sold France Telecom ahead of its coming share issue, and the CAC-40 index closed down 3.31 at 3,565.32.

Selling in France Telecom affected overall sentiment. The shares managed to close up FFr1 at FFr370. Investors were concerned over share price dilution once the new share issue is completed.

Financial stocks were weighed down by reports that Morgan Stanley had downgraded the UK banking sector. Société Générale was down FFr16 or 2.6 per cent to FFr760 and Paribas lost FFr10.40 or 2.3 per cent to FFr435.10.

Profit-taking hit defence stocks, with Lagardère down FFr13.40 or 5.9 per cent to FFr215.60 and Thomson-CSF retreating FFr7 or 3.6 per cent to FFr193.

Oil shares were mixed in spite of the weak oil price. Elf-Aquitaine remained unchanged at FFr687 while Total rose FFr9 to FFr680.

Castorama fell FFr36 or 3.3 per cent to FFr1,055. Investors were disappointed over its tie-up with Kingfisher of the UK.

MILAN closed down in thin trade with the Mibtel index 290 or 1.4 per cent lower at 20,410.

Profit-taking hit banks. BCI fell L470 or 4 per cent to L11,347 while Banca di Roma declined L89 or almost 3 per cent to L3,010. Fiat was down L178 or 3.6 per cent to L4,809 in spite of its announcement that it would merge its foundries with those of Renault.

Telecom Italia lost L324 or 2.7 per cent to L11,911 over concerns about the appointment of a managing director.

BRUSSELS came off its intraday highs as the market ran into mild profit-taking. However, the chemicals majors kept the index in positive territory as the Ciba-Clariant merger plan put the sector at the top of the agenda. The Bel-20 index closed 8.17 higher at 3,249.89, off the day's best of 3,282.68.

UCB was a strong performer, rising BFr7,650 to BFr206,000, while Solvay, higher for much of the day, slipped late in the session to close BFr20 easier at BFr2,610.

AMSTERDAM lost most of its early gains on the back of profit-taking and weaker neighbours and the AEX index finished 3.01 higher at 1,060.32.

Plastics maker EVC shed Fl 1.60 or 7.6 per cent to Fl 15.50 after Friday's news of a Fl 70m trading loss in 1998. Insurer Aegon pulled back from Friday's two-month peak to close Fl 1.90 lower at Fl 189.70.

Electronics company Baan gained strongly, jumping Fl 3.10 or 11.5 per cent to Fl 30.10 on speculative buying.

Chemicals groups DSM and Akzo shrugged off news of the Swiss merger, closing 30 cents higher at Fl 178.30 and 30 cents lower at Fl 71.60 respectively.

OSLO was hit by weak oil prices, and the Total index closed down 19.47 at 950.09.

Sluggish oil prices hit oil-related stocks. Norsk Hydro closed down NKr3 to NKr294 while Saga Petroleum was NKr1 lower at NKr87.5.

Kvaerner, the Anglo-Norwegian shipping group, fell NKr4.50 to NKr109.50. It was still under pressure after the recent profit warning and selling ahead of next week's interim report.

Financials, which had rallied on merger euphoria last week, fell on profit-taking.

Written and edited by Michael Morgan, Emiko Terazono, Peter Hall and Paul Grogan

Rally fades as golds falter

SOUTH AFRICA

Johannesburg turned back after last week's rally, which was inspired by lower domestic interest rates.

The overall index closed at 5,916.1, down 108.2 or 1.8 per cent. Financials gave up 2.4 per cent to 9,579.9 and industrials weakened 1.5 per cent at 6,740.3.

Golds dropped 2 per cent to 965.5 as bullion struggled to break $293 an ounce.

Turnover was lifted by a block trade of 13m shares in PQ Data Holdings at R83.

Yen fall aids Tokyo exporters

ASIA PACIFIC

Expectations that the government would release details of an economic stimulus package later in the week made for cautious trade in **TOKYO**, *writes Naoko Nakamae.*

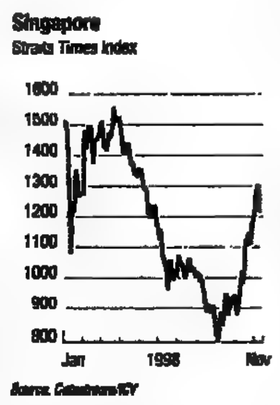
The Nikkei 225 average rose 72.57 to 14,194.54 after trading between 14,063.27 and 14,362.66. Other indices were down, with the weighted Nikkei 300 index losing 0.99 to 216.1, while the broader Topix index of first-sector stocks fell 5.31 to 1,084.16. Volume was light at 290m shares, with 616 issues rising and 478 falling.

The falling yen helped exporters such as Toshiba, whose shares rose 4.6 per cent or Y26 to Y593. Bridgestone was up 3.7 per cent or Y100 to Y2,800. Pioneer Electric climbed Y35 to Y2,135 and NEC gained Y12 to Y933.

The banking sector was the biggest loser, falling 2 per cent. Fuji Bank was down Y17 to Y491, Bank of Tokyo-Mitsubishi fell Y38 to Y1,165, Sanwa Bank lost Y31 to Y960, and Sumitomo Trust and Banking slid Y7 to Y365.

In Osaka, the OSE index was down, falling 109.46 to 14,637.3.

SINGAPORE found itself depressed by a sudden jump in interbank rates and the Straits Times index lost 64.48 or 5 per cent to 1,219.28.



Interest-sensitive stocks such as banks and property groups were hit by a brief spike in interbank rates. The property index fell 7.6 per cent while the finance index shed 5.7 per cent.

MANILA tumbled on blue-chip selling and the composite index closed down 84.86 or 4.7 per cent to 1,712.51.

Philippine Long Distance Telephone lost 5 pesos to 980 pesos despite its release of strong nine-month earnings.

Ayala, the conglomerate, was one of the leading losers, falling almost 9 per cent, while Ayala Land, its property arm, declined 12 per cent.

BANGKOK was hit by renewed worries over non-performing loans at banks, and the SET index fell 12.75 or 3.4 per cent to 363.85.

Comments last week by officials at the Thai Bankers Association on further losses at banks and other financial institutions prompted profit-taking. Banks were actively traded with the sub-index down more than 7 per cent.

Krung Thai Bank fell Bt2.25 to Bt19.25, while Thai Farmers Bank droped Bt3 to Bt48.50.

All sectors were hit except transportation stocks, which rose almost 5 per cent, and telecoms, which gained 1 per cent.

BOMBAY surged 3.4 per cent, rallying on the back of a partial waiver of US sanctions imposed on India and Pakistan following nuclear tests in May.

Traders said the rise was led by large-cap stocks that had fallen sharply over the past year after the economic slowdown ate into their margins.

Cement major Associated Cement Companies rose Rs57 to Rs1,003.50 while engineering and construction giant Larsen & Toubro jumped Rs11.90 to Rs160.90.

The BSE-30 index leapt to a high of 3,004.43 before closing at 2,933.67, up 99.30 on the day. Dealers said expectations that rules on share buybacks would be put in place this week also fuelled the stock market surge.

KUALA LUMPUR saw strong demand for financials, which sent the sectoral index up 3.5 per cent and the composite index 12.40 or 2.7 per cent higher to 465.69.

Analysts said buying by some large local funds ahead of December book-closings boosted prices, as did expectations that banks' bad loans would be reduced by a plan for Singapore to help raise funds for Malaysia.

HONG KONG gave in to profit-taking after the healthy gains of the past month and with little news to spur buying. The Hang Seng index gave up 287.82 or 2.8 per cent to 9,851.93. Turnover, however, shrank to HK$5.7bn against Friday's HK$9.6bn as many investors kept to the sidelines.

Brokers said investors had turned cautious after last week's round of share placements by red-chip companies and that some were fretting there may be additional placements coming.

HSBC Holdings dragged the market lower, losing HK$6 to HK$180, although property counters were the worst-hit sector with the sub-index falling 4 per cent.

Birth of the Berlin republic

The victory for Gerhard Schröder's red-green coalition, says **Peter Norman,** signals the dawning of a new era as clearly as the return of government to the country's historic capital

There are some months to go before the trucks move eastwards taking the paraphernalia of Germany's federal ministries, the diplomatic corps and the various government hangers-on from Bonn to Berlin.

But the September 27 election victory of Gerhard Schröder and his coalition of Social Democrats and environmental Greens has marked such a break in Germany's post-war history that it already seems natural to talk of the "Berlin republic".

Admittedly, a casual visitor in these blustery autumn days could be forgiven for asking "What has changed?" Apart from some dancing in the streets on election night, there was none of the euphoria that gripped Bonn in 1969 when an SPD-led coalition last took power.

Helmut Kohl, now just an ordinary MP, still lives in the chancellery bungalow and is on hand to give Mr Schröder advice if he wants it. Exuding an air of business as usual, the coalition partners have quickly got down to agreeing their government programme.

That document contains elements of continuity with the policies of Mr Kohl's centrist coalition of Christian Democrats, the Bavarian Christian Social Union and the small market-oriented Free Democrat Party.

This is especially true in foreign affairs, where the incoming and outgoing governments co-operated on policy over Kosovo and where both Mr Schröder and Joschka Fischer, Germany's Green foreign minister, have hastened to reassure close allies and neighbours in France, the US, Britain and Poland that a red-green administration does not represent discontinuity.

But change there is and will be. When Germany next goes to the polls in a general election in 2002 it is likely to be a very different country to that created by 16 years of Mr Kohl's government.

In itself, Mr Schröder's victory merits a place in the history books and not simply because it ended the political career of a chancellor who had become a living national monument.

It was confirmation of Germany's status as a mature democracy because, for the first time in the federal republic's 49-year history, a government changed through the ballot box rather than through a reshuffling of coalition parties between elections.

Although Mr Schröder's coalition is postwar Germany's third SPD-led government, his is the first red-green government at national level and the first to be made up entirely of left-of-centre parties.

It has far more power to effect change than did Mr Kohl's last government because the coalition parties also control the Bundesrat, the second chamber of the Bonn parliament representing the states.

Mr Schröder gained an unexpected bonus when elected chancellor by MPs on October 27. He is the first federal chancellor to be elected by more than the combined strength of his coalition's MPs in the Bundestag, the lower house of parliament.

He may, therefore, be in a stronger position than Willy Brandt and Helmut Schmidt, the previous SPD chancellors, to deal with rivals and dissidents in his own party.

The new government has brought a new generation to power. Mr Schröder, born in 1944, is Germany's first post-war leader not to have had personal experience of the horrors of war.

Many of his cabinet colleagues are members of the generation that first became politically active in the student unrest of 30 years ago. Mr Fischer, now 50, is a veteran of student street battles and demonstrations.

Mr Schröder and Otto Schily, the interior minister, are former defence lawyers who represented Red Army Faction terrorists in the 1970s.

Not surprisingly, the red-green coalition agreement is according greater importance to civil rights, including reform of Germany's anachronistic and restrictive citizenship laws to permit more of Germany's 7m foreign residents to become integrated into society.

The move to Berlin from sleepy Bonn will also change German politics and the way the country is governed. The Rhenish, Catholic influence that permeated Mr Kohl's administration and earlier CDU-led governments in the 1950s and 1960s will decline.

Ministers and MPs will be in the midst of a big city with all its attendant problems. They will be surrounded by the former communist eastern German *Länder*, which are still struggling to catch up with the more affluent west, and only a short distance from the Polish border.

Finally, huge pressure for change will come from the introduction of the euro, the single European currency, on January 1.

German industry and commerce will be exposed to greater transparency and competition. European integration will increase pressure to restructure anti-competitive tax, social security and pension systems.

The euro might even herald a better deal for consumers in a society which bestows advantages disproportionately on producers.

A decisive change is already under way in economic and social policy. Oskar Lafontaine, in charge of a strengthened finance ministry and with the additional power base of the SPD chairmanship, is determined to tackle Germany's problem of 4m unemployed. He plans a Keynesian programme to boost consumption underpinned by greater economic and social policy co-ordination in the European Union.

Mr Lafontaine's plans to redistribute some of the tax burden from rich to poor and from big business to workers and families mark a significant break with the supply-side agenda of Mr Kohl and Theo Waigel, the former finance minister.

By urging interest rate cuts from the Bundesbank and the European Central Bank, which takes responsibility for monetary policy from January, Mr Lafontaine is cheerfully breaking one of the great taboos of Germany's post-war system of governance – that independent central banks should be left alone to conduct monetary policy with the overriding aim of securing stable prices.

The idea of greater social justice runs like a thread through the policies of the red-green coalition. One of its first promises was to draft legislation reversing the limited supply-side reforms of Mr Kohl's government which trimmed pension entitlements and sick pay to reduce the cripplingly high non-wage labour costs of German business.

It is a policy mix that, until recently, would have been dismissed as a prescription for disaster. And it has triggered a storm of protest from leaders of business and industry, including such traditional moderates as Dieter Hundt, leader of BDA, the German employers' association.

Mr Lafontaine's ideas appear to pay scant heed to the mobility of capital and foreign direct investment and the increasingly hard-nosed approach of German business towards boosting profits and shareholder value.

Mr Kohl was unable to cut unemployment partly because businesses judged his supply-side agenda too half-hearted to justify increased investment. How, therefore, can Mr Lafontaine expect that his policy, with its unmistakable echoes of the 1970s, will be a success?

The new government is pinning much hope on Germany's tradition of consensus. It attaches a high priority to an "alliance for jobs" in which government, trade unions and employers would create a framework for increasing employment.

It has also convinced itself that its policies are the correct response to international financial turmoil and the perceived threat of global deflation. Its analysis of the economic crises in Asia and Russia has strengthened its belief in the need for a strong welfare state in Germany's social market economy.

Opinion surveys conducted before election day suggested that a majority of Germany's 60.5m voters wanted "change without risk". Instead, there will be much that is experimental in the coming four year term of the red-green coalition.

Ultimately, however, the new government will be judged on whether it can deliver a significant cut in unemployment.

Mr Kohl's last government failed this crucial test. Mr Schröder, who will be spelling out his government's programme in the Bundestag today, knows that here he must succeed.

Red and green: (first column) Christine Bergman, SPD; Andrea Fischer, Green; Edelgard Bulmahn, SPD; Heidemarie Wieczorek-Zeul, SPD
(second column) Bodo Hombach, SPD; Werner Müller; Franz Müntefering, SPD
(centre) Gerhard Schröder; Joschka Fischer
(fourth column) Oskar Lafontaine, SPD; Otto Schily, SPD; Walter Riester, SPD
(fifth column) Rudolf Scharping, SPD, Jürgen Trittin, Green; Herta Däubler-Gmelin, SPD, Karl-Heinz Funke, SPD
Montage: Michela Magus

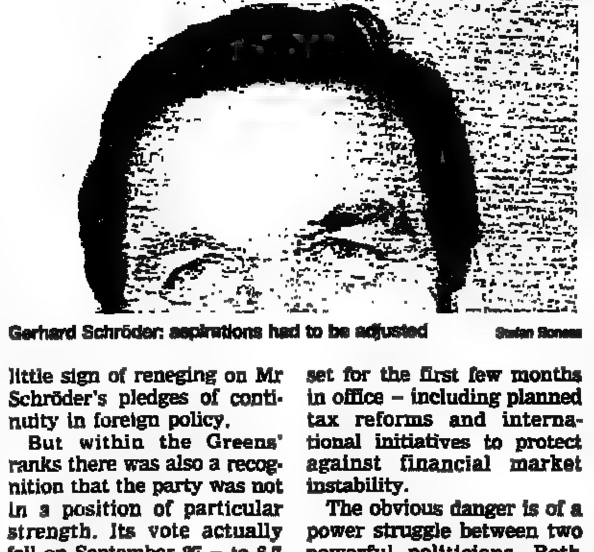
POLITICS by Ralph Atkins

Chance to make a fresh start

Gerhard Schröder's programme reflects a system which forces coalitions between parties and, therefore, compromises

In his election campaign, Gerhard Schröder cast himself as a *politician of the "new centre"*. He wanted to represent pragmatism and progress. Not everything would change but everything would "be done better".

In office, his aspirations have had to be adjusted to the realities of practical politics. His programme of government reflects a political system which forces coalitions between parties and, therefore, compromises. And it has also had to reflect the competing tensions and personalities within Mr Schröder's Social Democratic party and his Green party coalition allies.



Gerhard Schröder: aspirations had to be adjusted — Stefan Boness

There have been two main defining forces. First, the necessity of striking a deal with the Greens. Mr Schröder might have preferred a "grand coalition" between the SPD and the Christian Democratic Union (although without former Chancellor Helmut Kohl at its head). But the CDU's clear defeat on September 27 left "red-green" as the most obvious political constellation.

The coalition talks progressed surprisingly well – even though the SPD was forced to accommodate Greens' demands for higher "ecological" taxes, a speedy withdrawal from nuclear energy and wide-ranging reform of nationality laws which could extend German citizenship to large numbers of the 7m foreigners living in the country.

The fact that the pact was concluded in record time reflected the Green party's keenness to join the political mainstream and its willingness to limit its ambitions.

At the top there is an affinity between Mr Schröder and Joschka Fischer, the 50-year-old former revolutionary who, as Green foreign minister, has become a political pragmatist showing little sign of reneging on Mr Schröder's pledges of continuity in foreign policy.

But within the Greens' ranks there was also a recognition that the party was not in a position of particular strength. Its vote actually fell on September 27 – to 6.7 per cent from 7.3 per cent at the last election in 1994. Mr Fischer described the coalition deal as a "reliable basis" for government with the deal on exiting nuclear power "a real breakthrough".

The second force defining the political landscape has been the split leadership within the SPD. Although Mr Schröder is chancellor, Oskar Lafontaine, the finance minister, holds the party chairmanship. Mr Lafontaine has not been afraid to exert his influence. Most notably, the decision to move the European affairs and forecasting departments of the economics ministry to his ministry resulted in Jost Stollmann, the computer entrepreneur, refusing to serve as economics minister as expected.

But the imprint of Mr Lafontaine, who represents a traditionalist wing of the SPD, is also clear in tasks set for the first few months in office – including planned tax reforms and international initiatives to protect against financial market instability.

The obvious danger is of a power struggle between two powerful politicians. Both Mr Schröder and Mr Lafontaine insist there is not a problem. At the SPD conference which approved the coalition deal, Mr Schröder scorned media reports of a split. "Dear Oskar," he said, "let them howl, the caravan moves on."

To portray Mr Lafontaine as a left-winger at loggerheads with Mr Schröder's modernising instincts is too simplistic. After all, Mr Schröder espouses social justice; Mr Lafontaine envisages structural reform of the social security system.

The chancellor has made clear, moreover, that when it comes to government decisions, he will decide. Mr Lafontaine realises that schisms in the SPD would weaken the government disastrously.

But the double leadership has not yet been tested fully in government. The personal relationships could alter substantially if Mr Lafontaine is seen to be triumphing – or floundering – in his central tasks of stimulating the economy and cutting unemployment.

If Mr Schröder can continue to harness the competing forces within his coalition, his government has a chance to open a very different chapter in Germany's post-war history. There is a markedly different accent to German politics.

The CDU, still retaining its supply-side orientation, is now in opposition for the first time in 16 years. The conservative Bavarian Christian Social Union, dominated by Edmund Stoiber, Bavaria's prime minister, remains the biggest political force in its home state, one of the country's strongest economically. But in Bonn the CSU is no longer part of the federal government. Its contributions to financial prudence and Christian, family-orientated ethics have gone.

Similarly, the Free Democratic Party, which served as the free-market conscience in Mr Kohl's coalition, has been marginalised. Its ejection from office is all the more traumatic because the FDP has served in virtually every government since the second world war – providing enough votes to give either the CDU/CSU or SPD a majority in government. Worse, the Greens may have supplanted the FDP's role as "kingmaker". There are voices within the CDU who believe a future pact with the Greens may also be possible.

Mr Schröder's position is reinforced by the strength of the SPD in the 16 *Länder*, or federal states. The party is in government in 13 states (although sometimes in alliance with the FDP, Greens or CDU) and supplies 11 state heads of government.

That not only gives the SPD a strong influence over state politics, it also lessens the likelihood of the Bundesrat, or second chamber of parliament which represents the states, acting as a block on government legislation. *Reformstau*, or political gridlock, created by opposition from the SPD-dominated Bundesrat, blighted Mr Kohl's final years in office. Mr Schröder has a chance to make a fresh start.

PROFILES
WALTER RIESTER, WOLFGANG SCHAUBLE and BODO HOMBACH

An innovative thinker

Walter Riester is Gerhard Schröder's man to think the unthinkable.

Before Mr Riester joined Mr Schröder's election team in April, the slightly built former deputy chairman of the IG Metall trade union had built up a formidable reputation as a negotiator and innovative thinker in collective bargaining.

These are the talents that Germany's new chancellor wants to harness in the tripartite "alliance for jobs and training" with business and the employers and in the important venture of reforming Germany's creaking pay-as-you-go pension system to cope with the problems of an ageing population.

As minister for labour and social affairs, 55-year-old Mr Riester will inherit the biggest departmental budget in Bonn. He will also take prime responsibility for cutting unemployment, which is the new Social Democrat-Green coalition's main goal.

If the new government can cut the DM170bn annual cost of unemployment it will be closer to solving the economic, financial and social problems. It would be a daunting agenda for any established politician. But Mr Riester is far removed from the Bonn stereotype.

Modest, quietly spoken and unexcitable, he is accustomed to exercising power behind the scenes rather than in the glare of publicity. Norbert Blüm, Mr Riester's predecessor as labour minister in the Kohl administration, considers him "a decent bloke".

Mr Riester comes to his new job with impressive references. In 1993, Ferdinand Piëch, chairman of Volkswagen, tried to recruit him to be VW's personnel director. Helmut Kohl appointed him to an advisory council on research, technology and science in 1995.

Dieter Hundt, leader of the German employers' association, BDA, and Mr Riester's opposite number in negotiations on five wage deals for the Baden-Württemberg metal industry between 1990 and 1995, praises him as a "very pragmatic man".

Mr Hundt sees something of a soulmate in Mr Riester. "We have rather similar personalities," he says. "He also makes the effort to find something which the other side can accept."

However, in terms of background Mr Riester is more similar to Mr Schröder. He was also brought up in an impoverished household, also left school at 14, becoming apprenticed to a tiler. His old trade has since become a hobby.

Like the new chancellor, Mr Riester studied in his spare time to make up for his lack of formal education.

While Mr Schröder became increasingly involved in Social Democratic party politics as a student in the 1960s, Mr Riester was an active trade unionist, becoming a career union official in the 1970s.

With his intimate knowledge of trade union affairs and the respect of Germany's managerial class, Mr Riester has as good a chance as anyone of making a success of the controversial alliance for jobs.

The aim, he explained earlier this year, is for "trade unions, employers and politicians to agree on certain parameters and to find joint solutions to solve the problem of unemployment".

A first priority would be a "generational treaty" to deal with youth unemployment. This would "help those older workers who wish to leave work and simultaneously open up the labour market to younger workers".

The new government has pledged to provide jobs or training places for 100,000 young unemployed.

A second step would be for "the people running the economy, the education system and labour market policy" to get together and consider how to create new jobs in forward-looking areas of activity, such as transport, telecommunications and environmental technology.

Early visible success will be important for the project, which Mr Schröder wants to extend for the four-year life of the new parliament.

"Schröder and I agree that there must be a convincing start," he says. "That means concrete, understandable projects."

Later, the alliance could offer a framework for reaching a consensus on modernising Germany's welfare state to cope better with an ageing population at a time of permanent constraints on public budgets.

For Mr Riester the alliance for jobs is "a very exciting project" with an uncertain outcome. "If it works, we will secure a process of change in this society," he says.

"We will never reach the ideal society but we must try to be successful."

Peter Norman

Survivor of the election débâcle

For most of the Kohl years *Wolfgang Schäuble was the* loyal lieutenant. He was closely associated with former Chancellor Helmut Kohl's biggest projects, from the successful unification of Germany to failed attempts in the last few years of the Kohl administration to reform the chaotic tax system.

Now, after the Christian Democratic Union's disastrous election result on September 27, he is the one left behind.

Mr Schäuble, 56, is the new CDU leader who faces the difficult task of rebuilding a defeated, deflated party which has been thrown out of office for the first time in 16 years.

His task is to adjust the CDU to an opposition role under the country's first Social Democrat-Green coalition government.

Mr Schäuble's appointment as party chairman results partly from Mr Kohl's continuing influence. Mr Kohl had repeatedly and publicly anointed Mr Schäuble as his eventual successor. In the immediate aftermath of September 27, Mr Kohl pushed through Mr Schäuble's formal selection by the party.

But his promotion is also a testament to Mr Schäuble's own stubbornness and political durability. While the leadership ranks of the CDU, and the Christian Social Union, its Bavarian sister party, were purged after *September's election defeat*, Mr Schäuble fought on.

It is a trait long ingrained, noticeably since an assassination attempt in 1990. Two bullets fired by a psychologically disturbed man left him paralysed from the chest down.

Within a month the then interior minister was re-engaged in politics from his hospital bed, saying: "I want to get on with my work as quickly as possible."

The Freiburg-born lawyer was rising quickly through the ranks. In 1984 he had been appointed by Mr Kohl as minister in the chancellery, where he acted as a "trouble shooter" with a wide-ranging remit.

In 1989 he moved to the interior ministry and, after the fall of the Berlin wall, was brought into the *"kitchen cabinet" which* oversaw the lead-up to Germany's reunification in October, 1990.

His handicap hardly a hindrance, a year later he took over the chairmanship of the CDU parliamentary party.

His task now is considerable. No one in the CDU is confident of a return to office at the next federal election in 2002.

In the states of eastern Germany, whose unification with the west symbolised Mr Kohl's chancellorship, the CDU's vote slipped on election night by up to 15 percentage points. In Brandenburg the party fared scarcely better than the Party of Democratic Socialism, successor to East Germany's communists.

Out of the 16 *Länder*, or state, governments in Germany as a *whole*, the CDU runs only one, Saxony, by itself although the Bavarian Christian Social Union has an absolute majority in Bavaria. The danger is of Christian Democracy becoming marginalised from *mainstream politics*.

Some elements of Mr Schäuble's revival strategy are already clear. First, under his leadership there will be no radical changes in political principles.

On the opposition benches, the CDU will retain its close links with the CSU but will no longer have to *agree on issues with the* small right-wing Free Democratic Party, which was the junior partner in Mr Kohl's government.

That may create scope for a stronger social element in a CDU platform pitched at regaining voters from the "political centre" claimed by Gerhard Schröder.

In interviews following the September defeat, however, Mr Schäuble has made clear his continuing pride in the CDU's "future programme" on which the party fought the election – largely an extension of reform ideas that had started to be implemented while in office. The job now, he says, is "to persuade the public that our position is right".

The CDU will also remain a Christian party with Mr Schäuble rejecting ideas that a strong attachment to *traditional family values* has become outmoded.

Second, Mr Schäuble will wait for the new "red-green" government to make mistakes.

He has identified the new government's plans for tax changes and for a *withdrawal from nuclear* power as potential weak spots. The former could cost jobs and the latter could increase Germany's dependence on fuel supplies from less stable parts of the world, he argues.

Ralph Atkins

Spin doctor with a bold prescription

The appointment of Bodo Hombach as minister in the chancellor's department is a *sign that conventional thinking will be challenged, if not thrown upside down.*

Mr Hombach, 46, is an astute purveyor of "third way" politics that reject both socialism and conservative supply-side economics.

He argues for wholesale reform of some of Germany's *most* cherished postwar institutions, including the creaking "pay-as-you-go" pension scheme and a social security system which, he maintains, promotes a dependence on the state.

He cites Ludwig Erhard, the Christian Democratic economics minister and chancellor credited with creating Germany's post-war economic miracle, in support of his calls for a rebuilding of the social market economy.

Although his ideas have gained currency through his new book, *Awakenings: the Politics of the New Centre*, his role in Mr Schröder's government is likely to be subtle – despite his 1.93m height and 230lb weight. Throughout his political career Mr Hombach has operated largely behind the scenes as adviser, schemer and fixer.

Born at Mülheim an der Ruhr, the trained telecommunications engineer has been an SPD member since 1971. For most of the 1980s he was general secretary *of the party in North Rhine* Westphalia, Germany's most populous state and a power base of the SPD.

As a close campaign adviser, he three times helped Johannes Rau, the state prime minister, win an absolute majority in the state parliament.

In 1991 Mr Hombach joined the marketing and strategy operation of Salzgitter steel in Düsseldorf, and he subsequently had a series of jobs within the Preussag industrial conglomerate which is headquartered in Lower Saxony, the state where Mr Schröder was prime minister.

But Mr Hombach's rise and move into Mr Schröder's camp is linked to developments in North Rhine Westphalia.

Mr Rau was never a close ally of Mr Schröder. But Mr Rau's decision to step down as the local prime minister in March cleared the way for Wolfgang Clement, the state's economics minister and a moderniser in the mould of Mr Schröder, to take the state premiership.

One of Mr Clement's first acts was to appoint Mr Hombach, who has a reputation as one of the best connected politicians in Germany, as his economics minister.

Now transferred to Bonn as minister, Mr Hombach will have a role as "trouble *shooter" with a remit* stretching across all government departments and easy access to Mr Schröder.

But he will have to tread delicately. For one thing, Mr Hombach's personal wealth – he lives in a DM1.5m house in Mülheim – and reputation as a cigar-smoking political "spin doctor" means he is treated with suspicion by many traditionalists in the SPD.

More pertinently, his ideas for social and economic reform go far beyond the SPD's election manifesto and have already incurred the *wrath of senior figures* in the party.

He argues Germany has to learn from US ideas for using the social sesecurity system to encourage the unemployed back in to work. The welfare system should not encourage a cycle of dependency but encourage self-dependence and entrepreneurship, he suggests.

While, in the US, there are too many eking out a living from low paid jobs, Mr Hombach sympathises with those amazed that, in Germany, it is apparently better to have no job than a "McJob".

On the state pension system Mr Hombach, unlike many in his party, admits that the ageing of the population means that the lifestyle expectations of those now contributing are likely to be frustrated at retirement.

He argues basic state provision should, in future, be supplemented by occupational schemes overseen by the state and by private pensions. There should be a *greater emphasis* on a capital "funded" element to make clearer to recipients the level of provision.

In Germany these are bold ideas. The state pension scheme is regarded as one of the forces binding generations together in a highly consensual society. But Mr Hombach's prescription for Germany fits the mood of many in business.

Ralph Atkins

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THE ECONOMY by Tony Barber

Cracks appear in SPD's election cornerstone

A growing chorus of employers and economists are criticising the coalition's proposals to solve the problem of German's 4m unemployed by means of an 'alliance for jobs'

Rarely has the spotlight on the German economy been so intense as now.

With perhaps a third of the global economy in recession, a left-of-centre government holding power in Bonn for the first time in 16 years and 11 European countries about to launch the euro, the world needs sound, successful German economic policies more than ever.

The tasks facing Chancellor Gerhard Schröder's Social Democrat-Green coalition are made even more formidable by the immediate economic outlook. His government took office last month less than a week after Germany's six leading economic institutes had painted a picture of clearly deteriorating domestic conditions.

The upturn on which Helmut Kohl, the former chancellor, had counted to defeat Mr Schröder in last September's election is petering out. A weaker dollar and the troubles in Asia, Russia, parts of eastern Europe and Latin America are taking their toll on German exports. This will cause producers to reduce inventory levels, thereby curbing domestic demand. Meanwhile, slower growth in the US and in the euro-zone as a whole seems likely next year.

Six institutes cut their 1999 growth forecast for the German economy to 2.3 per cent from the 2.7 per cent they had estimated six months ago. Some forecasters are still more pessimistic: analysts at Warburg Dillon Read say that lower private consumption and the large budget gaps left by Mr Kohl's government mean Germany can expect only 1.5 per cent growth next year.

Irritatingly for Mr Schröder, a majority of the institutes also joined a growing chorus of company executives and economists in criticising the government's planned tax reforms as timid and bad for business.

Equally, these constituencies have had little good to say about the government's proposals to put Germany's 4m jobless back to work by means of an "alliance for jobs" among government, employers and trade unions.

In Mr Schröder's view, the "alliance for jobs" was no mere catchy election slogan but a cornerstone of the SPD's successful campaign. It was the unemployment issue which did for Mr Kohl; even though the seasonally unadjusted total dropped just below the politically charged level of 4m in September, the news came too late to save him.

Adjusted for seasonal variations, unemployment stood at 4.15m, as high as in the 1930s. Quite how the "alliance for jobs" will work remains unclear. The chancellor and his finance minister, Oskar Lafontaine, are at one in insisting that the government will not interpret it simply as an opportunity to impose state-designed job creation schemes of the kind associated with the traditional left.

Still, the initiative clearly forms part of a pattern in which it is the new government's intention to boost economic growth by increasing overall demand, partly through tax reform and partly by assisting job creation wherever it can.

On these points, the scope for clashes with the business world is considerable. Employers doubt that the coalition is addressing the roots of Germany's jobless problem, among which they identify the high tax and social security charges that discourage the hiring of workers.

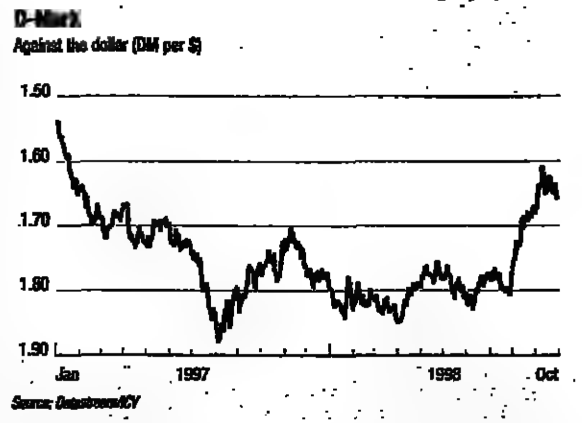
But Mr Lafontaine points out that, by increasing taxes on energy use, the government has created room to cut an annual DM36bn from companies' pension and social security bills.

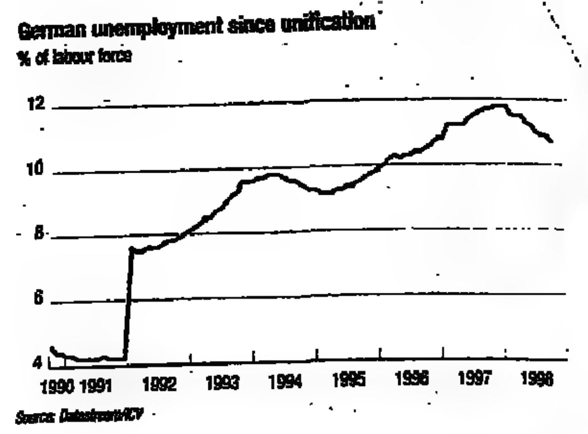
As part of its plans to stimulate demand, the coalition is proposing tax relief for wage-earners amounting to DM30bn in 1999 and 2000.

The private sector contends that the government plans to finance this reduction largely by broadening the basis of corporation tax.

Many companies, especially exporters, complain that this would deter investment and job creation at the very time when they are expecting falls in orders and profits. Take the chemicals and drugs industries, vital to Germany's economic success.

Four of the nation's biggest companies, BASF, Bayer, Hoechst and Schering, each reported last





month that the Asian crisis, the falling dollar and the decline in global chemical prices would affect their annual results.

According to the Munich-based Ifo institute, business confidence dropped sharply in September, even before the election that put the SPD and Greens into power. As if this were not enough, pressure is also piling upon Mr Schröder from the SPD's traditional constituencies.

The largest trade union, IG Metall, which represents more than 3m metal and electrical workers, is pressing for wage increases of 6.5 per cent next year, well above the annual inflation rate of less than 1 per cent.

Bank and other clerical workers want the same amount. With IG Metall's former deputy leader, Walter Riester, installed as Germany's labour minister, the unions are clearly hoping that their voice will count for more in government policy-making.

More broadly, they aim to reverse the decline in their fortunes that has seen a 25 per cent drop since 1991 in membership of the DGB national trade union federation. Pressure from the SPD's left wing and the environmentalist Greens is visible in the shape of the early assault launched on nuclear power, which provides more than a third of Germany's electricity.

Yet Mr Schröder is keen to reach a consensus with nuclear plant operators over the details of any eventual withdrawal from atomic energy.

The result, says Gertrud Traud of investment analysts Julius Bär, is that "revolutionary changes in the energy supply system are highly unlikely".

Even so, the broad thrust of the new government's policies is already arousing controversy. Mr Lafontaine in particular sees himself as spearheading a Europe-wide drive for jobs and growth. It remains to be seen how successfully that project can be reconciled with fiscal stability in the euro-zone and what German business sees as the pressing need for structural reform of the economy.

POLICY ISSUES by Ralph Atkins

World waiting for reform

Apart from changes to the tax structure, priorities will be curbing unemployment and excesses of market speculation

"Germany needs reform and in many respects we don't have much time. The world will not wait for us."

Nobody in the new government would disagree with the warning from President Roman Herzog, delivered as he handed over Chancellor Gerhard Schröder's certificate of office last month. But, although the Social Democratic/Green party 50-page coalition pact covers a multitude of policy issues, the speed at which they will be introduced will vary.

Much falls to Oskar Lafontaine, the SPD chairman who heads an expanded finance ministry. His tax reform plans were the centrepiece of the coalition government. His aim is to simplify a notoriously complex and opaque system and boost the income of average working families. But Mr Lafontaine's ambition to introduce more "justice" into the tax system has fuelled accusations from industry organisations that he is embarking on old-fashioned, redistributive politics.

The changes should start to take effect soon. The first of three stages of reforms is due to be implemented on January 1. At that time, the starting rate of income tax would be cut from 25.9 per cent to 23.9 per cent. By the final stage – to come into force from January 2002 – the starting rate would have fallen to 19.9 per cent. The top rate would have fallen from 53 per cent to 48.5 per cent.

Although the government plans a commission on reforming corporation taxation and has set the goal of capping taxes on companies at 35 per cent by 2000, much of the cost of cutting income taxes will be borne by business. Some 70 measures to streamline the tax system and remove "superfluous" reliefs have been identified which would raise about DM40bn. Overall, the net tax "giveaway" by 2002 would be DM10bn under Mr Lafontaine's three-stage plan; the average working family would be DM2,700 a year better off.

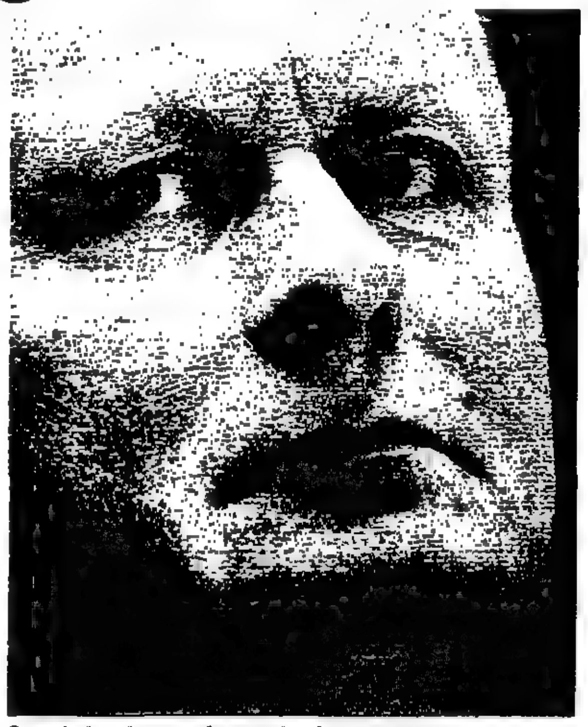
Mr Lafontaine says the tax reforms will be buttressed by prudent budgeting by the government; the coalition pact has set debt reduction as one of its financial aims. He has also signalled a willingness to tackle structural reforms in the welfare state. Hints about a possible means testing of unemployment pay have provoked criticism from Norbert Blüm, formerly Mr Kohl's labour minister who saw the welfare system as an important part of Germany's social solidarity.

Besides tax reform, Mr Lafontaine's priority will be seeking international agreement on measures to create jobs and curb the excesses of financial market speculation.

Mr Schröder has proposed establishing a European "employment pact" alongside the existing anti-inflation pact for economic and monetary union. For his part, Mr Lafontaine backs ideas originally floated by Paul Volcker, former US Federal Reserve chairman, for setting target zones for the world's main currencies.

Economic initiatives on the international stage will be flanked by assurances from Joschka Fischer, the Green foreign minister, of continuity in foreign policy – within Europe and across the Atlantic.

Enhanced financial co-ordination with other countries, the government believes, will contribute to the government's principal



Oskar Lafontaine: promises prudent budgeting Stefan Boness

task – cutting unemployment. But it is also planning to summon an "alliance for jobs" bringing together the unions, employers and the state. The aim would be to orientate wage policies, employment practices and government decisions towards the common goal of job creation.

The new government hopes, too, that its "ecological tax" plans will cut joblessness. Funds raised from higher petrol, gas, oil and electricity prices will finance cuts in statutory social contributions paid by employees and employers. The resulting reduction in currently-high non-wage labour costs would increase German labour competitiveness.

Other early priorities will include new citizenship rules which would, for the first time, expressly allow "dual nationality" and grant German citizenship to foreigners after eight years living in the country. Children of foreigners would be able to claim German citizenship at birth if one of their parents was born in Germany or came to Germany before the age of 14.

In other areas, however, the coalition government has opted for delaying tactics. Most noticeably, differences between the SPD and Greens over the timetable for exiting nuclear power forced a compromise deal which allows one year to reach an agreement with the energy industry on a phased withdrawal. If there is no deal at the end of this period, then – at least according to the coalition deal – legislation imposing a timetable will be introduced. However, there will be immediate measures to review the safety of the country's 19 atomic power stations.

Similarly, in the area of reforming the creaking pay-as-you-go state pension reform, the government is to reverse immediately cuts agreed by the Kohl administration but will otherwise put off decisions until next year. So far, its plans for confronting the challenges of an ageing population have only a shape in outline: more people would pay into the state scheme but private provision and occupational pension schemes would be expanded.

Another area where confrontation has been avoided is in defence policy. Although many Greens are pushing for significant reductions in the size of Germany's armed forces, the government has postponed significant decisions pending the outcome of an "armed forces commission". The commission, which is expected to take up to two years to report, will study possible threats to Germany's security as well as alternative structures for the armed forces.

Deferring decisions – whether over defence policy or nuclear power – has had the advantage of allowing time for a reasoned debate. It also avoids unnecessary argument at the start of the new government. But resolving such difficult issues will be the test of the new government's ability to effect reform.

PROFILE
DIETER HUNDT

Sceptic who will need persuading

If Germany's new left of centre government is to make a success of its planned nationwide "alliance for jobs" to cut unemployment, it must persuade a sceptical Dieter Hundt that the project has merit.

As chairman and owner of 50 per cent of Allgaier-Werke, a medium-sized motor components manufacturer in the south western state of Baden Württemberg, Mr Hundt is the type of *mittelstand* entrepreneur that Chancellor Gerhard Schröder sees as a key provider of new jobs in the future.

Better known as head of the German employers' federation (BDA), the 60-year-old Mr Hundt is almost certainly Germany's most influential industrialist when it comes to deciding whether business can work with the coalition of Social Democrats and environmental Greens to combat unemployment.

"Obviously, we can all get together round a table and talk. But not a single job will come of that," Mr Hundt says. "New jobs appear in my company when I and my works council agree arrangements that reflect reforms agreed in collective agreements and which increase our competitiveness.

"A genuine alliance for jobs can only exist at plant level," he explains. "The partners in the collective bargaining process have to set the right conditions through flexible agreements. And the government has to accompany this process by creating the right framework."

Mr Hundt fears that the new government will not fulfil its part of this bargain. He sees "dark clouds on the horizon". The coalition's plans for cutting corporate tax breaks and its decision to reverse the previous government's welfare cuts mean his members are "less worried about the world economy than what the new government has in store for business and especially for the *mittelstand*".

This is potentially bad news for Mr Schröder. A tough but fair negotiator, Mr Hundt is a moderate on social issues. He has been firmly committed to making Germany's corporatist business structure work better and is interested in reaching agreements.

"I strive for solutions that are acceptable for the people sitting opposite. I've always been that way and my approach has been justified by experience. It never pays to break bridges," he says.

It was with this philosophy that he agreed a local "alliance for jobs" with the 1,200 employees of his company in Uhingen, near Stuttgart, a year ago.

"We agreed to invest a substantial, specific amount in our home base in Germany in the four years to 2002. There would be no dismissals on the grounds of business trends. Our training programme should be maintained at least at its present level and expanded if possible. We agreed to offer a proper job to all who successfully completed their training. That was our side of the bargain," Mr Hundt recalls.

"In return, we obtained an enormous increase in the flexibility of working hours. For example, we can work Saturdays. We have working time accounts so that people can work up to 50 or 60 hours in the week and for less than the 35-hour week agreed for the metal working industry.

"We have operations abroad. But my goal is to maintain the main plant of our group near Stuttgart at its present size at least," he says. "It has 1,150 to 1,200 employees. They have 60 different models covering their working hours. One shift, two shifts, three shifts; extended one shift, extended two shifts, three shifts including Saturday, shortened working hours: all different working time models. It's great. There are no problems at all. Everybody is happy. I am and so are my employees."

Such flexibility "was unthinkable 10 years ago" when working hours were precisely regulated. Then it was: "Start work at 6 o'clock, end at 1600 hours, break at 1200 noon."

The deal agreed with the Allgaier-Werke workers' council shows how a heavily unionised German business can modernise its working methods within the framework of a collective bargaining agreement.

"We would have really big problems without collective agreements in Germany," says Mr Hundt. "Consider the idea of introducing more part-time working in old age to create job opportunities for the young. That is a very good example of why, given the German mentality, German culture and German history, we need collective agreements. We could never regulate that through individual agreements in a company. But if such a model is agreed between an employers' federation and a trade union, our workers will accept it. German workers trust their trade unions."

He admits that he could imagine a different system of collective bargaining "if we were to start afresh now, with a clean sheet of paper, a new Germany.

"But we have to build on the system as it is. People are accustomed to think in terms of collective bargaining. It would be a horror scenario if I had to agree individual contracts with all my 1,200 employees. Things are regulated and we can have differing arrangements between certain margins. It is rather like manoeuvring between the crash barriers on the motorway. There are limits. If everything were unregulated, there would be a big risk of crashing into oncoming traffic."

In Mr Hundt's view, Germany's employers and trade unions "have been very successful in reshaping collective agreements in recent years. We have more flexible methods of operating which are very attractive".

Looking to the future, he expects collective agreements will become still more flexible. "I believe that a reformed system of collective bargaining offers the best chance of avoiding out-of-date conflicts such as strikes," he says.

Peter Norman

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EASTERN GERMANY by Frederick Stüdemann

Sparkle amid the gloom

The region offers a more flexible labour market and a lighter bureaucratic touch than in the west

East Germany no longer looks like a basket case. Eight years after unification with the west, the region's roads no longer rattle the bones and telephones not only work, and are freely available but are part of one of Europe's most modern telecommunications networks.

Villages, towns and cities where buildings were once crumbling are in the process of being restored. Indeed, many now look better and wealthier than their western equivalents.

All this has come at a considerable cost. Since unification more than DM1,000bn in public money has flowed into eastern Germany.

But, while there has certainly been something to show for all this money, the project of reconstructing a formerly communist command economy has proved more difficult than expected and is set to continue for a considerable time.

The region is blighted by high unemployment. Its industries lag behind those in the west in terms of productivity and exporting strengths. On top of these economic factors, east Germans frequently complain of suffering from heavy-handed treatment by apparently arrogant westerners.

There are lingering grievances about the restitution of property expropriated under communism to former owners, often westerners. Investigations by government bodies and the media into the pervasive workings of the communist secret police, the Stasi, have been transformed into a point of tension between east and west.

Within the east there is tension between the victims of Stasi oppression and perpetrators or those who think the matter is best left alone. In relation to the west, easterners claim the issue of Stasi involvement, whether alleged or otherwise, is used indiscriminately to tar the east.

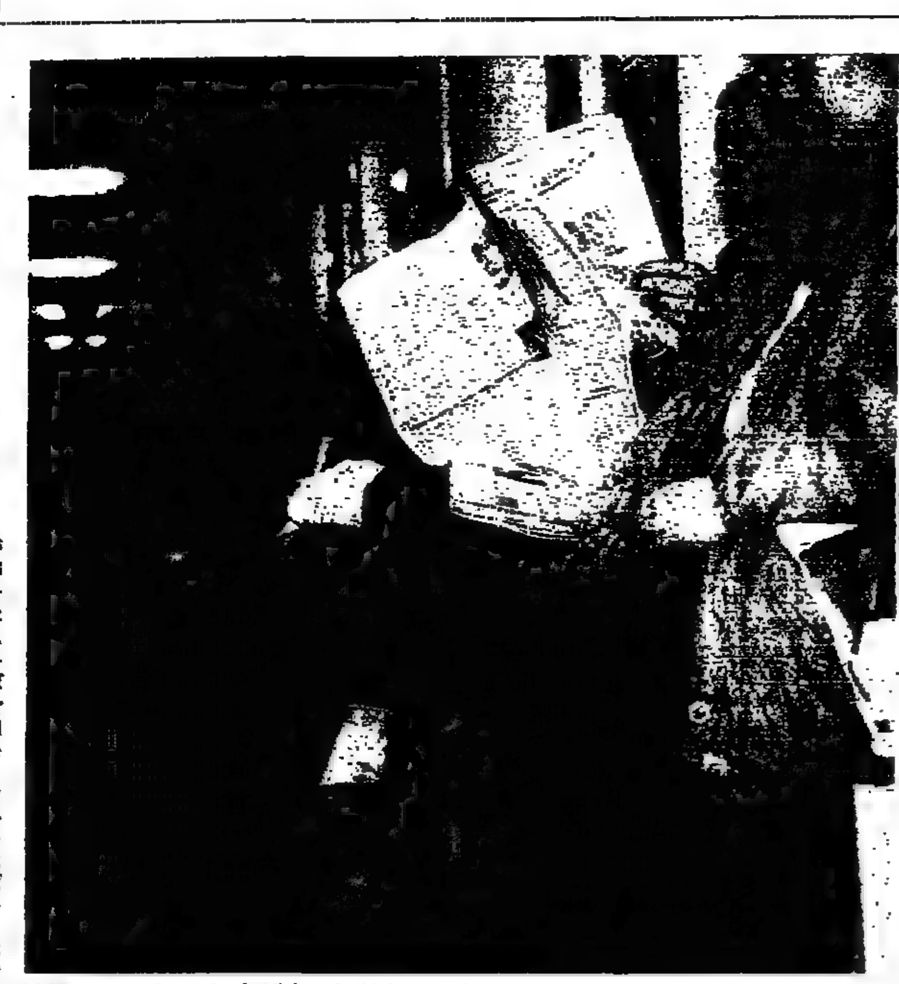
To complete the gloomy picture the region's population is dropping. Since unification as many as 1.5m people have left in search of work or a better life elsewhere.

According to a recent study by the Institute for Labour Market and Employment Research, which is allied to the Federal Labour Office, there will be no fundamental improvement in the eastern German job market for at least 10 years. With unemployment running at around 18 per cent,

> 'Villages, towns and cities, once crumbling, are in the process of being restored'

and higher if the numbers of people on training or make-work schemes are included, this is a grim prediction.

The institute's forecast is based on the assumption that the consolidation of public sector spending set in train by the previous government will continue, that growth in the region will increase by not more than 5 per cent a year, productivity will rise by 3 per cent for each employee and wage policy will be productivity-orientated.



Waiting game: the region is blighted by high unemployment — Stefan Boness

Following the election of Gerhard Schröder's Social Democrat-led government, some of these criteria are obviously up for question, not least the assumption about government spending. But the underlying message is clear. It will take time for the east German economy to provide self-generated employment growth.

Instead, it will probably be left to publicly-sponsored make-work schemes, which were already expanded this year under the previous government, to get people, nominally at least, off the dole queues.

Economists in the region identify three main causes for the lack of improvement in the job market in the forseeable future – contraction in the construction sector which boomed after unification on the back of government funded infrastructure programmes, the striving for higher productivity by business in the region and slimming of the public sector.

But Rüdiger Pohl, head of the Halle Institute for Economic Research in the state of Saxony-Anhalt, a particular unemployment blackspot, says these trends should not be seen as totally negative.

The scaling back of a bloated construction sector, which in 1997 made up 15 per cent of the economy as opposed to 5 per cent in the west, is a welcome development, as is the trimming of the public sector. Higher productivity should also deliver longer-term benefits and, he hopes, jobs.

Understandably, perhaps, such economic detail is lost on many east Germans. Mr Pohl believes part of the problem lies in the way success is measured and perceived at popular level.

Under communism, where the economy was dominated by mono-industrial giants, people became accustomed to thinking in big dimensions.

"The success of a small or medium-sized company employing a couple of hundred people hardly registers," he says. Yet, he points out, it is precisely such companies the region needs.

Not all the news coming out of the east is gloomy. In fact, in certain areas, such as flexibility in the labour market and a lighter bureaucratic hand on business, the region is actually ahead of the west.

The difficult job market and the general economic upheaval which followed unification have also made easterners more mobile and ready to embrace change.

The appetite for change has also shown itself in the political arena, where easterners have proved far more volatile voters than westerners. The result is more dramatic swings between the parties, as shown in September's general election when support for the then-governing Christian Democrats dropped by nearly 12 per cent, a slide considerably beyond what, in the west, traditionally counted as a landslide.

Richard Schröder, a theologian and member of the first, and last, democratically elected East German government before unification, says the willingness to shop around among the parties is evidence of an undeveloped democratic culture.

Other commentators, however, wonder whether in Germany's changing political landscape, where traditional ties between certain social groups and parties have weakened, it is not a sign of things to come across the country as a whole.

EUROPEAN UNION by Peter Norman

Integration drive set to continue

Gerhard Schröder, largely an unknown quantity on the European stage, is likely to be less visionary than his predecessor

Germany's European visionary has gone. But Helmut Kohl's general election defeat does not mean any let-up in pressure for greater European integration.

The coalition agreement between the Social Democratic party and the environmental Greens pledges Gerhard Schröder's new left-of-centre government to "drive the European integration process forward with new initiatives" and use Germany's EU presidency in the first six months of next year "to give new impulses to the deepening and widening of the European Union".

These undertakings are to be taken seriously. Although Mr Schröder is largely an unknown quantity on the European stage and until recently was sceptical about the euro, Oskar Lafontaine, the finance minister, has a host of projects for economic policy co-ordination and combating unemployment at EU level. And, because most other EU governments are social democratic, the chances of progress look good.

A paradox of Helmut Kohl's last years in office was that Germany's great European statesman was increasingly obliged to adopt positions that blocked EU integration.

Depending, as Mr Kohl did, on the support of Edmund Stoiber, the Eurosceptic Christian Social Union prime minister of Bavaria, the former chancellor presided over a government that allowed no significant progress on such crucial issues as reform of the common agricultural policy.

Mr Kohl would press the EU's enlargement to include the former communist countries of eastern and central Europe as an urgent priority for peace and freedom, only for his agriculture minister to cast doubt on the project because of the competitive threat to farm products.

With Mr Schröder at the helm Germany is likely to be less visionary and could be more predictable.

Mr Schröder will approach the EU with far less emotional baggage than Mr Kohl, who first formulated his pro-European ideals in a devastated Germany at the end of the second world war.

"My generation and those following are Europeans because we want to be, not because we must be," says 54-year-old Mr Schröder. "That makes us freer in dealing with others.

"It also gives us bigger possibilities to know and understand other cultures. I am convinced that our European partners want to have a self-confident German partner which is more calculable than a German partner with an inferiority complex.

"Germany standing up for its national interests will be just as natural as France or Britain standing up for theirs."

Mr Schröder has promised that he will not change Germany's pro-European direction. But he stresses that the journey may become more difficult. "Everyone must realise that with the decision over the euro the strategic heights have been reached. Now we begin with the hard work in the plains."

This will mean a more hard-nosed approach to the EU's eastward enlargement.

Mr Schröder has reaffirmed his support for enlargement while warning that the economic pre-conditions and consequences of "this great work" must be taken more seriously than in the past. "Realistically, we will need time," he says.

The new government will not duck difficult questions, such as the effect of Polish EU membership on a German labour market marked by high unemployment.

"There will be many conflicts of interest which we will have to resolve in a spirit of partnership," the chancellor warns.

Joschka Fischer is an enthusiastic pro-European — Stefan Boness

For Mr Lafontaine, European partnership is an essential part of his plans for tackling the 4m unemployed. The government has pledged to put combating unemployment "at the centre" of its European policy and will seek a "European employment pact".

It wants the euro to be a success and to this end is determined to step up European co-ordination of economic, financial and social policy and work for "joint and binding rules against tax, social and environmental dumping".

The red-green coalition accord includes an "effective minimum taxation of companies and the elimination of tax oases".

Although Mr Lafontaine was sceptical about the single currency, he has come to the finance ministry with a long European pedigree.

He was brought up in the Saarland near the French border, rising to become the state's prime minister. He is plugged into the European social democratic political network through his position as SPD chairman.

He has long been close to Jacques Delors, the former Brussels commission president. Mr Lafontaine has also moved to strengthen his control over European policy issues, taking the European department from the economics to the finance ministry.

There will be continuity on European affairs in the German foreign ministry despite new political management after 29 years with a Free Democrat minister at the head.

Joschka Fischer, the Green foreign minister, is an enthusiastic pro-European. And he will be complemented by Günter Verheugen, the SPD minister of state for European affairs, who is an expert on security issues.

The SPD-Green coalition pact made reaching agreement on the Agenda 2000 programme for EU agricultural, structural and financial reform one of the main tasks facing the German presidency.

The new government has smoothed the way for its six-month presidency by promising that it will make an "appropriate" contribution to financing the EU budget and indicating a greater willingness than Mr Kohl's administration to tackle agricultural and structural reform.

These are early days yet, but the signals on EU policy coming from Bonn's new government are at green rather than red.

THE WORKPLACE by Lucy Smy

New faces around the table

The government is resurrecting the jobs forum with unions and employers

Gerhard Schröder, Germany's new chancellor, says he can get Germany back to work. In fact, an upturn in the economic cycle means that as he takes office, unemployment has fallen for the ninth month in a row.

The good news about falling unemployment figures did nothing to help Mr Schröder's predecessor, Helmut Kohl, who presided over the worst unemployment figures in the country's post-war history. Mr Kohl saw unemployment rise to a level of more than 4m people and appeared powerless to stop it.

However, the solution to create jobs which Mr Schröder made one of the main points of his election campaign has been blatantly borrowed.

He is proposing a "round table for jobs" – a forum where unions, employers and the government all sit down and work together to create more jobs. It is not new.

"We tried this before in 1996," says Günter Albrecht of the DIHT, Germany's chambers of industry and commerce. Then the negotiations broke down as the unions felt they were being squeezed on wages as employers demanded better pre-conditions to create jobs.

This time employers associations threatened not to show up at all. During the election employers said that if Mr Schröder's Social Democrats won the election and stuck to a pledge reversing the cut in sick pay, from 80 per cent back to 100 per cent, they would not turn up.

The election result has seen a change of heart from the employers associations but they are markedly less enthusiastic about the round table than are the unions.

"We will participate in the round table," says Alexander Batschari of the VDMA, the trade association for the plant and machinery industry, "But we cannot expect miracles. We can only create new jobs when we have orders."

"The 'new alliance for jobs' is the topic of the new government," says Mr Albrecht. "But its success depends on the philosophy behind the new government and no one knows exactly what that is."

"The SPD say it is their priority. I expect an invitation shortly after the government is formed," says Jörg Barszynski of the IG Metall union.

Not only is creating jobs the new government's priority, according to Mr Barszynski, it is the priority of the nation. "The change in Germany took place because people saw the old government could not change the labour figures. No one expects the new government to work a wonder, but if they do not change the work situation they will be out."

It could be a heavy load to bear, regardless of any cyclical help. Mr Batschari sounds the warning from the machinery makers. "In the first eight months of this year our orders have gone up by 7 per cent and exports are up by around 10 per cent, but the increase in jobs has only been 0.4 per cent. This ratio of jobs to products is new, it used to match more.

"It is the result of the last economic downturn, when bankruptcies were high," he explains. "Companies have not forgotten this. Officially 6,000 more jobs have been created in our industry in the first eight months of the year, but 7,000-8,000 more have been created in temporary work. Employers do not want to hire people, because the cost of firing them is high. People are now very cautious."

Moreover, heavy engineering companies making what are essentially investment products are looking fearfully at what possible effect the Asian financial crisis will have on them.

"Our exports to Asia have declined strongly and in the next few months we will see orders slump," says Mr Batschari. "We are also expecting more competition from Japan. When the round table is created it will be impossible for representatives of our industry to promise success and more jobs. We cannot act and react as if we are only in Germany. We are dependent on the rest of the world economy."

But the IG Metall leader is more positive about the outcome of the round table and full of suggestions. Union proposals for a cut in overtime, hiring more people and introducing early retirement could create 1.5m jobs, says Mr Barszynski.

Mr Albrecht of the DIHT has more modest ambitions "The talks should help to create an employment-oriented wage policy and could help to create a positive climate for wage settlements and resolving crises."

This may be no mean feat with the IG Metall union announcing a pay claim of 6.5 per cent – instantly attacked by employers as ignoring economic realities – and banking and insurance unions looking set to follow suit.

Employers and unions want the annual pay round talks to be held separately from the round table talks but the co-dependence of job creation and wage levels looks set to stymie this at some point.

Greater communication between employers and employees seems welcome on all sides – albeit with different levels of expectation. But Mr Albrecht questions its need at a national level.

"Alliances for jobs already exist in plants and that is where they work. The union in the plant and the management both know what is going on with the plant and between them they can decide what is best for wages and employment oriented policies," he says.

"It is not up to government alone to create more jobs, particularly when the government is so new that it has not spelt out clearly what its policies will be." says Mr Albrecht.

"That is why it is so hard to tell whether the round table for jobs will succeed. We have changed the government but not the questions."

BERLIN AND BONN by Frederick Stüdemann and Ralph Atkins

Capital transfer

The move is a dramatic example of how Germany has been changed by unification

The late Franz Josef Strauss once claimed that the only excitement to be found in Bonn came from watching the trains departing from the town's main station.

Were he alive today the former Bavarian premier and conservative heavyweight would be able to witness a departure on a much grander scale as the German government prepares to leave its Rhineland base in Bonn and move to Berlin.

As a logistical exercise the transfer next summer of tens of thousands of politicians, bureaucrats, lobbyists, journalists and others who make it their business to follow government will be an operation of military proportions.

But the move is about more than just the shifting of bureaucratic and political furniture. It is one of the more dramatic examples of just how Germany has been changed by unification following the collapse of communism nearly 10 years ago.

Among intellectuals and opinion formers the move has already been characterised as the transfer from the "Bonn Republic" to the "Berlin Republic". Pinning down what these terms exactly mean is difficult.

Broadly speaking, Bonn is taken as the symbol of successful political and economic recovery accompanied by self-conscious modesty. Berlin, in contrast, is viewed as anything from a refreshingly metropolitan and open-minded place to a messy and vulgar city closely associated with the greatest horrors and mistakes of German history.

Such sweeping opinions, which can be found in most of the country's quality newspapers, are dismissed by some veteran politicians.

Count Otto Lambsdorff, a former economics minister, for instance, says that while Bonn is a manageable and predictable place for government to do business and Berlin will be more hectic the move will not fundamentally alter the character of the republic.

On a more down-to-earth level, both cities have already been dramatically changed in the run-up to the move of government, which may take place faster than originally planned following Gerhard Schröder's election victory.

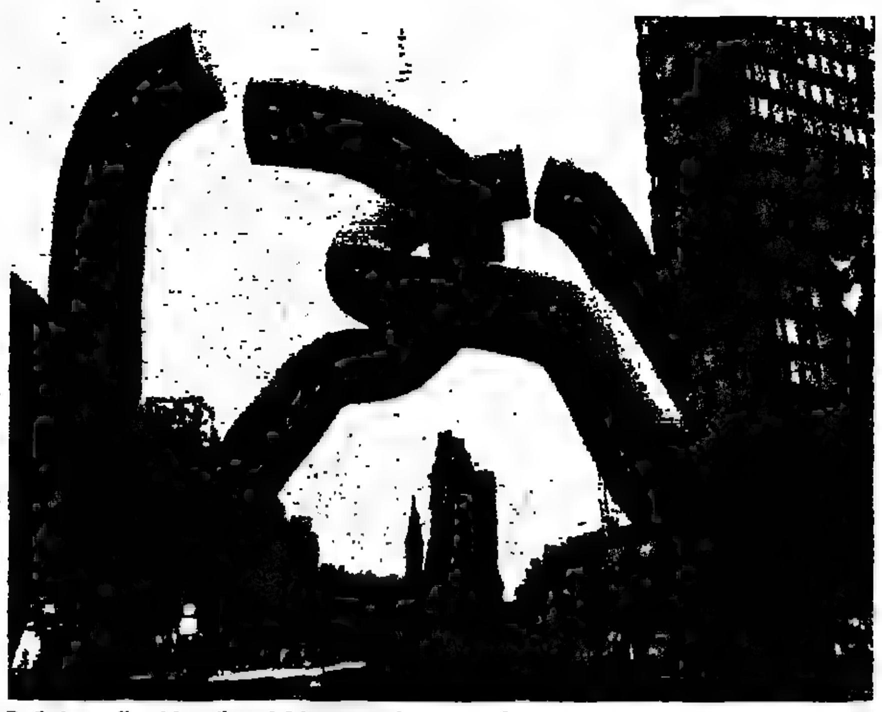
The new Chancellor has never been particularly associated with Bonn. His power-base was the state of Lower Saxony, where he was prime minister. He is expected to move to Berlin as quickly as possible – his wife, Doris, and stepdaughter are staying in Lower Saxony until he does.

Berlin's first keynote date in the federal political calendar is the election next May of the federal president. By then the reconstruction of the Reichstag parliament building will be complete, though parliament is only due to move in the summer recess.

The new chancellery building is due to be finished at the end of next year. Most of the ministries also plan to be ready to function in the latter half of 1999.

Transport hubs, such as a completely new central station linking express, local, underground and high-speed trains, are also in the making. Just south of the Brandenburg Gate at Potsdamer Platz a vast office, retail, residential and entertainment complex is almost finished. Running underneath all this will be tunnels for cars and trains.

Besides delivering new infrastructure and buildings, which are doing much to erase the scars acquired by Berlin's often unhappy journey through the 20th century, the city hopes the arrival of government will boost its flagging economy.



Berlin has suffered from the painful process of reconstruction Stefan Boness

One of the ironies of German unification is that, while Berlin obviously gained so much from the fall of the wall which divided the city, it has also suffered more than others from the painful process of reconstruction.

Unemployment has risen as the collapse of the command economy in the east took with it many inefficient industries. In the west the scrapping of federal subsidies, intended to maintain the city's Cold War image as an outpost of the free world, has had a similar effect.

Meanwhile, the opening up of the city's hinterland, the state of Brandenburg, has lured business and middle-class taxpayers to greener and cheaper pastures.

The city's government, the senate, has been overwhelmed by the scale of the task of bringing Berlin's two halves back together and making the preparations for a return to the role as a capital.

Inhabitants, investors and visitors alike complain of the surprising provincialism of city politicians and officials and a tendency to see central government coffers as the solution to all local problems, another legacy of Berlin's time on the sidelines of national life.

"I just hope that when the Bonners arrive it will be like a tidal wave which will sweep away all this small-mindedness," says a senior federal official based in Berlin.

Bonn, meanwhile, is getting used to the idea of a role out of the limelight. It is not a totally uninviting prospect.

For much of its history Bonn was a quiet Rhineland university city. The motor cavalcades and police escort riders never looked quite right in its suburban streets.

The economic impact, too, should be modest. Two out of three jobs in Bonn-based government ministries will stay. Some departments, such as defence, are remaining in their entirety, others are keeping substantial "back offices" in the city.

Overall, the net job loss, including from embassies, trade associations and the media, is put at about 14,000 out of a population of 311,000.

At the same time Bonn is developing new industries and activities. Bärbel Dieckmann, the city's mayor, optimistically describes next year's move not as a setback, but "a transition into a new future".

The city's council is seeking to promote Bonn as a centre for the fast-growth communications and multimedia industries as well as for research and international co-operation.

Deutsche Telekom, Europe's largest telecommunications group, is based in the city and a number of international organisations, including some from the United Nations, have relocated to Bonn. Despite the impending move, the property market has remained strong and the expected glut of office space has not materialised.

Unlike many other cities in Germany, Bonn's population is rising. Spending power is 19 per cent above the national average.

Thanks largely to generous funding from the federal government, Bonn is seeing a splurge of infrastructure investment, including a vastly expanded airport with high-speed rail connection and a road tunnel under the Bad Godesberg suburb favoured by the diplomatic community.

But the decision to move the capital was, and still is, a psychological blow for Bonn which, for all its modesty, provided the backdrop for Germany's post-war embrace of democratic and stable government. Berlin will not be the same.

CENTRAL EUROPEAN LINKS by Frederick Stüdemann

Eastern promise beckons Berlin

Germany has sought to establish good relations with its immediate neighbours, Poland and the Czech Republic

Central and eastern Europe are easy to find from Berlin. Step on to a bus, hire a carpenter or walk into one of the fancier boutiques off the Kurfürstendamm, the city's premier shopping boulevard, and the chances are that amid the fast-paced growl of the Berlin dialect there will be smatterings of Polish, Russian or Czech.

The geographical proximity of the German capital to eastern Europe will be one of the significant features of daily life to confront the country's government when it moves next year from Bonn to Berlin. And because of this some predict an "easternisation" of the federal republic.

Wolfgang Clement, premier of the western state of North Rhine Westphalia, in which Bonn is located, believes the move to Berlin will have significant impact on the orientation of the regional states, the *Länder*.

Mr Clement, predicts that the effect of the move will be to confirm existing trends. "The already strong westwards orientation of North-Rhine Westphalia will be strengthened – the orientation towards Brussels, the European Union and our neighbours," he says.

"Berlin and Brandenburg will orientate themselves more towards the other side, towards Poland and the central and eastern European states."

His prediction is already partly reality. Trade with central and eastern Europe has grown dramatically since the collapse of communism. Cross-border initiatives, such as schools, a university and a planned motorway are given high profile by local politicians.

At a more grass-roots level, thousands of Poles and Germans now cross the Oder river, the border between the two countries, each day to shop for the cheaper goods and services offered on one side or the brand names or specialist items available on the other.

But despite this backdrop it is uncertain whether Berlin's location will significantly affect federal policy. The official view is that, whether in Bonn or Berlin, Germany's overall position – anchored in the west, engaged in assisting the transformation of countries in the east – will not change.

"The geographical position of government is not the deciding factor in our policy towards central and eastern Europe," says a foreign ministry official. "The deciding factor is our interests."

Since the collapse of communism Germany's policy has been to encourage the stabilisation of central and eastern Europe and thus ensure stability on its borders. In pursuit of this goal Bonn has been an enthusiastic backer of the eastward expansion of Nato and the European Union.

On a bilateral level, Germany has sought to establish good relations, particularly with its immediate eastern neighbours, Poland and the Czech Republic.

The latter has not always been easy. Historical grievances, dating back to the German invasion of Czechoslovakia and the post-1945 expulsion of ethnic Germans from northern Czech lands, overshadowed and delayed Bonn and Prague's efforts to conclude a friendship treaty which was finally signed in 1996.

Reaching a similar treaty with Poland was less problematical, which is perhaps remarkable given that the Poles arguably suffered more from German aggression than the Czechs.

But such grand initiatives also pose awkward domestic questions, such as how to reconcile labour market mobility with the fears of German workers that they will be undercut by competitors from Poland?

Before their election victory in September the Social Democrats said they would push for a delay to labour mobility a move which, in turn, may sour relations with Warsaw.

The economic gulf between Germany and its eastern neighbours is also a concern in the area of trade. "We have [trade] surpluses with nearly all the [central and east European] countries," says Winfried Häusle, of the federal economics ministry. "This is a concern for us as you cannot export there for ever."

Some 10 per cent of Germany's trade is now with central and eastern Europe. According to the federal economics ministry the volume of trade with central and eastern Europe ran to around DM170bn last year, roughly the same as that with France, Germany's main trading partner, and greater than that with the United States.

Mr Häusle says that, whereas in western Europe spending by German tourists helps balance out French, Spanish and Italian trade deficits with Germany, there is no similar compensatory measure with Poland or the Czech Republic. Instead, the federal economics ministry seeks to encourage companies in those countries to invest in Germany.

"It is in our interest," he says. "We have a situation of of grave differences on either side of the Oder river and do not want to see the creation of a wasteland on the German side because all the small and medium-sized business has gone over to Poland where it is cheaper."

Ten years ago such concern would have been fanciful. Today it is evidence of the sweeping changes heralded by the fall of the Berlin wall in 1989.

INDUSTRIAL RENAISSANCE by Graham Bowley

A sector transformed

There is a new willingness in corporate Germany to think and act in very different ways

Few saw it coming but the merger this year between Daimler-Benz, Germany's biggest industrial group, and Chrysler of the US was a fitting tribute to the transformation that has ripped through German industry over the past five years.

It was fitting that the merger involved Daimler-Benz. The Stuttgart-based company, led by chief executive Jürgen Schrempp, has arguably done most of any German business to prepare itself for the global economic pressures that Germany, like any country, now faces.

Daimler, soon to become one half of DaimlerChrysler, has changed radically over the past few years, cutting back staff, raising productivity, slashing costs, selling off non-core businesses, moving activities to cheaper locations abroad and reorientating itself towards the stock market by implementing shareholder-friendly policies.

Daimler led what has now become a trend among Germany's big companies of adopting US accounting standards, which are more transparent than German rules, and listing its shares on the New York Stock Exchange.

Without these changes, says Mr Schrempp, a merger of DaimlerChrysler's proportions would simply not have been possible.

But Daimler has not been alone in this revolution. Several other German companies have set out on a similar period of fundamental restructuring. In doing so corporate Germany has demonstrated a new willingness to think and act in very different ways compared with the past.

Perhaps the most fundamental jolt to the German corporate landscape predates the DaimlerChrysler merger. This was the hostile takeover attempt in early 1997 by steel group Krupp Hoesch for its rival Thyssen.

In a country where hostile corporate manoeuvring was virtually unheard of, Krupp's actions sent shock waves through Germany and underlined the difficulties the country faced in trying to gain wider social acceptance for industrial restructuring.

The takeover bid triggered union protests and prompted outrage at the banks, Deutsche and Dresdner, which had advised Krupp. The emotional reaction clearly highlighted the uneasy balance between pressures forcing industrial change on the one hand and Germany's powerful labour organisations and innate conservatism on the other.

Yet despite the initial loud protests the merger of the two steel groups is now going through, although on slightly different terms from those first envisaged. The fact that the merger is proceeding without significant protest is a sign that Germany is changing.

One of the best examples of corporate transformation is Hoechst. Chief executive Jürgen Dormann has begun to dismantle what was once Europe's biggest chemicals group.

His idea has been to transform Hoechst from a sprawling conglomerate into a narrowly focused life sciences – pharmaceuticals and drugs – company.

But the process is proving as controversial as the Krupp-Thyssen merger. He has cut jobs, is spinning off unwanted businesses and has split the company's remaining divisions into self-governing entities.

In the process, Hoechst has become simply a holding company. However, the jury is still out on whether the revolution will be a success.

Another example of restructuring, and one that so far has been extremely successful, is that launched by Volkswagen, Europe's biggest car group. Like most of Germany's car companies, VW suffered a downturn after an initial boom earlier this decade.

Ferdinand Piëch, chief executive, responded by forcing a new emphasis within VW on exciting designs. But, in addition, he introduced novel manufacturing strategies to cut costs which involved VW's different models sharing similar basic engineering platforms and parts.

This strategy has been at the centre of a remarkable turnround at VW and its sister marques, most notably Audi, its luxury brand. It has enabled the company to make quick successes out of its newly acquired Spanish and Czech subsidiaries, Seat and Skoda.

In these foreign divisions VW has been at the forefront of what has become another important trend in German industry, increased foreign investment.

Many German companies have shifted production abroad to be closer to markets that are growing faster than the domestic economy. Daimler-Benz, for example, last year established an important beachhead in the US when it opened a new car plant in Alabama to make sports utility vehicles.

But German companies have also moved production abroad to be in regions where manufacturing expenses are much lower than in high-cost Germany.

As an illustration of the benefits reaped by German companies which have shifted production over the border Opel, the German unit of General Motors, last month opened a new factory near Krakow in Poland where workers' take-home pay is around 15 per cent of German workers' wages.

VW's strength and lofty ambitions were well illustrated earlier this year when it fought aggressively with fellow German car group BMW for Rolls-Royce Motor Cars, the British luxury car group.

Although it eventually lost the battle for the Rolls-Royce name, VW won control of the Bentley title and added Rolls-Royce's UK factory to its growing empire.

But new manufacturing techniques and alternative locations do not alone explain the revival of German industry. This would hardly have been possible without a new realism on the part of the country's unions.

Germany still has a strong network of labour organisations. But, in the crisis triggered by the highest unemployment rate in 50 years, they have had to allow some of the strict rules that governed Germany's factory floors to be dismantled.

Companies have demanded – and some unions, to do them justice, have been willing to accept – more flexible working hours and more flexible wage setting. Over the past few years unit wage costs have begun to fall, although non-wage labour costs remain stubbornly high.

In some cases companies have been able to strike wage deals which are specific to the particular conditions of individual plants rather than bound by traditional industry-wide pay agreements.

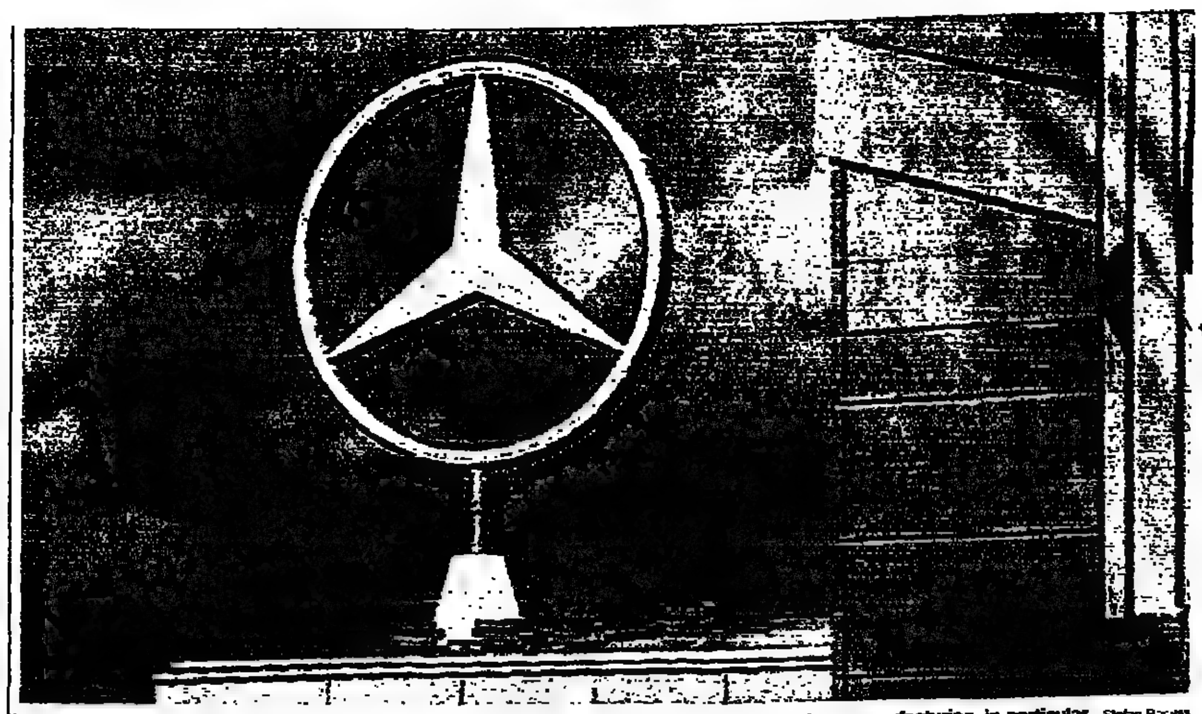
Unions such as IG Metall, the engineering and metal industries organisation, have shown a new awareness of the commercial pressures that companies such as Daimler-Benz now face.

However, the recent claim by IG Metall, Germany's biggest union, for a 6.5 per cent wage increase next year has raised the possibility of a new period of industrial unrest and has brought attacks from industry.

The hope of some trade unionists is that their cause will be helped by the new Social Democratic and Green Party coalition government.

Already, Oskar Lafontaine, the new finance minister, has indicated that he favours higher wages as a way of stimulating the economy. Not surprisingly, the new government has caused widespread nervousness among industrialists.

But, as well as fearing tacit support for higher wages, companies also fear the government will impose other costs on business, in particular by raising energy taxes and ending the use of nuclear power.



Bench marque: DaimlerChrysler reflects dramatic changes in German industry, generally, and car manufacturing, in particular

MOTOR INDUSTRY by Haig Simonian

Back in the driving seat

It has been a year of astonishing confidence for an industry once on the defensive

When Daimler-Benz's takeover of Chrysler is formally closed some time this month it will be the final act in a year of rare drama for Germany's car companies.

It only awaits the parties planned at the Frankfurt and New York stock exchanges to mark the start of trading in DaimlerChrysler shares to set the seal on a vintage year.

Back in January, anyone predicting a transatlantic motor industry takeover, let alone led by one of Germany's most traditional companies, would have been laughed out of court.

That Jürgen Schrempp, Daimler-Benz's chairman, initiated such a deal testifies to the new spirit on the production line. DaimlerChrysler may be the most striking example, but it has been a year of astonishing confidence for an industry which was once on the defensive.

Written off in the early 1990s as hopelessly uncompetitive, Germany's carmakers have come back with a vengeance. Part of their recovery has stemmed from inspired products such as Mercedes-Benz's new S Class and Volkswagen's New Beetle.

Such models, along with the new TT made by VW's Audi executive car subsidiary, have overturned Germany's reputation for well engineered, well made but often rather dull products.

By jazzing up their styling, beefing up marketing and often lowering prices, Germany's carmakers have found themselves having to apologise to customers for long delivery delays rather than dreary cars.

But the new product blitz is just one aspect of a broader renaissance. At the sharp end on the production line working practices are often unrecognisable compared with a few years ago.

Greater flexibility in the workplace, albeit often born of the implicit threat to transfer jobs abroad, has helped to overcome Germany's punishingly high production costs.

While that has not stopped some manufacturers from investing abroad, such as Audi's sparkling Hungarian plant in Győr or BMW's expanding US facility in South Carolina, most manufacturers pointedly say foreign investments have also helped them at home, with rising employment figures even in Germany.

The macroeconomy has helped. After a sluggish start domestic car sales have been buoyant this year. Strong registrations in August and September have prompted Nick Smee, European motors analyst at JP Morgan, to forecast sales of about 3.5m for the year.

Exports have been particularly robust. Boosted by their better products and the strong dollar, VW, Daimler-Benz and Porsche have posted stunning increases in North America.

VW's performance has been boosted by rising output of its Mexican-built New Beetle, while Daimler-Benz has soared thanks to the M Class, a sports utility vehicle made at its greenfield plant in Alabama.

The biggest changes, however, have been on the corporate front. The DaimlerChrysler deal, announced to an unsuspecting world in May, has forced car and component makers from Turin to Toledo to reassess their assumptions about optimum size in the industry and question their continued independence.

But Mr Schrempp has not had the field all to himself. In what has sometimes seemed a deliberate game of one-upmanship, Ferdinand Piëch, VW's redoubtable chairman, has often tried to trump his Stuttgart-based rival.

Mr Piëch has revolutionised productivity at VW, contributing immeasurably to the record group profits just reported for the first nine months.

Sales, if not earnings, will soon be further boosted by this year's acquisitions of Rolls-Royce Motor Cars and Cosworth in the UK and Lamborghini in Italy.

In time, revenues may be swollen further by cars bearing the Bugatti marque. Mr Piëch bought the rights to the famous name almost as an afterthought following the other takeovers.

Mr Piëch has driven VW hard on the product side, too. At the Paris motor show in September he unveiled two show stoppers – a special version of VW's tiny Lupo hatchback boasting world-beating fuel economy and, at the other extreme, a prototype Bugatti fitted with a blisteringly powerful 18-cylinder engine.

Even BMW, slightly overshadowed in recent weeks by the rising losses at its Rover subsidiary in the UK, has not come out badly.

In the bruising battle with VW for control of Rolls-Royce, Bernd Pischetsrieder, BMW's chairman, inflicted a rare defeat on Mr Piëch by winning long-term control of the Rolls-Royce brand, leaving VW with bigger selling, but less prestigious, Bentley.

So why have the share prices of Germany's carmakers not reflected their *tour de force* in products or productivity? For much of the year their shares were accelerating faster than a turbocharged Porsche as investors raced into motor stocks.

That the shares subsequently went into a tailspin says more about broad fears of a cyclical downturn next year than any changes among the carmakers themselves.

Such concerns have been exacerbated by signs of a slightly weaker dollar and lent weight by the severe fall in car demand in Asia and South America. Domestically, the new Red-Green government of Social Democrats and environmentalists may spell tougher controls for the industry in the longer term.

The pessimism may be overdone, however. Asia is an important, but ultimately marginal, market for the Germans.

Although sales have fallen, the turmoil could even provide some rare opportunities. Daimler-Benz's widely expected takeover of Nissan Diesel, the Japanese truckmaker, should take place soon after the DaimlerChrysler deal is closed.

South America is a bigger worry. While BMW is barely affected, Brazil and Argentina are important markets for VW in cars and trucks and for Daimler-Benz in commercial vehicles.

Meanwhile, the softer dollar and weaker US demand would hit all the German manufacturers hard in a high margin market. Hence the reason why, however shiny the new metal, investors have not allowed themselves to be blinded to the longer-term risks on the road ahead.

HIGH TECHNOLOGY by Graham Bowley

Buccaneers pioneer the way

Several world-beating high-tech businesses have put down their roots in Germany

A small town in eastern Germany is not the usual place you would expect to find one of the world's leading suppliers of internet commerce software.

But the pretty centre of Jena – where Goethe studied and Napoleon won his famous battle to defeat the Prussians – is now home to Intershop, one of several exciting new high technology companies that are flourishing across Germany.

Several world-beating high-tech businesses, such as Intershop, have put down their roots in Germany and have begun to grow.

Brokat Infosystems, which claims to be the biggest supplier of software for internet banking in Europe, is another example, based in Stuttgart. And IXOS, a computer archiving group with headquarters near Munich, is another new arrival which is expanding quickly.

It is these young corporate buccaneers that are changing the face of industrial Germany.

Only a few years ago the country was seen as a land dominated in large part by medium-sized, family-owned *Mittelstand* companies and huge, partly state-owned industrial monoliths.

Hard-working and disciplined, many had strong family and social ties and a focus on traditional sectors such as engineering.

But now, with companies such as Brokat and Intershop, all that is changing. And the high-tech renaissance is not exclusive to the world of computers and software.

Many new, fast-growing German biotechnology companies are appearing. Qiagen is perhaps the best example, a biotechnology company based near Düsseldorf which became the first German company to list on New York's Nasdaq exchange for growth stocks.

Germany has, perhaps, been the country to benefit most from a marked shift by governments across Europe in favour of public support for the nascent biotechnology industry.

German authorities have led the way in public encouragement of an industry politicians recognise as increasingly necessary to creating employment and replacing older, dying sectors.

The chief stimulant has been the German government's BioRegio programme, which provided financial support for selected regions of the country. And the public authorities' greater enthusiasm has been matched by a sharp turnround in the German public's sentiment towards biotech after years of deep distrust.

The resulting support catalysed growth and led to a flowering of new companies. Germany and its neighbours, such as France and the Netherlands, may still lag the UK in terms of number of companies and financial sophistication of the sector but, with companies like Qiagen, that is gradually changing.

These companies have succeeded by applying traditional German strengths – well-trained and dedicated workforces – to business areas that would not normally be associated with Germany.

But they have flown in the face of German tradition in other ways, too. They are making use of new sources of finance that were not available in Germany just a few years ago.

It is the increasing availability of these new types of finance that is helping to transform corporate Germany. Perhaps the most important development has been the arrival of the Neuer Markt, Frankfurt's own stock exchange for high-tech companies founded in the spring of 1997.

The new exchange has been a great success. It has opened up new avenues of growth for many small companies that would have been denied stock exchanging finance before.

All the new companies mentioned above – Intershop, Brokat, IXOS, Qiagen – have listed on the Neuer Markt.

And these companies have discovered a surprisingly avid appetite among German investors for their shares – at least until the recent general market downturn – which is providing some of them with the capital they need to grow.

Intershop's shares were snapped up when they were launched. On the first day of trading the share price more than doubled, although recently all Neuer Markt shares have experienced more turbulent times.

But the exchange is not the only new source of financing. Venture capital is also becoming more established in Germany and it is flowing into exciting start-up companies in the areas of information technology and biotechnology.

Companies such as Intershop and Qiagen have benefited greatly from venture capital. The new venture capitalists appear to have chosen Munich and its surroundings in southern Germany as their preferred location and many new companies have sprung up in this region.

Perhaps not surprisingly, it is in this region, too, that many of the new high-tech computer groups and biotechnology companies have located.

The potential for these new-style German companies is tremendous. The most impressive example, and the one that the young companies are now trying to emulate, is SAP, the business software company.

When it was founded in 1972 near Heidelberg, SAP was an iconoclast for Germany. The nation's computer industry was undeveloped and unrespected, and SAP raised eyebrows by going for a stock market listing rather than tying itself to banks.

Yet those unorthodox choices have paid off as SAP has become one of Germany's top companies by market capitalisation and the leader in its field.

SAP was a ground-breaker. But the rash of young IT and biotech companies shows that there are now several new SAPs in the making.

MEDIA by Frederick Stüdemann

Remote controllers

Regulators have made their presence felt by blocking plans for digital pay-TV

The German media industry, Europe's largest, likes to present itself as a young, dynamic sector driven by creative, fresh-minded people.

In fact, the development of the industry lies more in the hands of regulators who have their fingers firmly on the remote control.

Whether in Berlin, home of Germany's cartel office, or in the offices of the European Union's competition commissioner in Brussels, regulators have made their presence felt by blocking plans for the development of digital pay-TV.

Last month the cartel office blocked plans by CLT-Ufa and Kirch, Germany's two biggest broadcasting groups, to increase their stakes in Premiere, a pay-TV channel which uses traditional analogue technology but is in the process of being upgraded to digital.

The blocking followed a decision in May by the commission to veto a planned alliance between the two companies and Deutsche Telekom, the partially privatised telecoms company.

That alliance involved the full-scale merger of the pay-TV interests of Kirch and CLT-Ufa, which is 40 per cent owned by Bertelsmann, the world's third biggest media company.

One consequence of these moves may be the opening of the German market to foreign media companies. The finances of privately-held Kirch have been severely strained by its investments in digital pay-TV, which have cost around DM1bn, and the company is now looking for possible investors.

There have been talks with Silvio Berlusconi, the Italian media magnate, Rupert Murdoch's News Corporation and the Saudi Prince Al Waleed, a News Corporation shareholder, but so far these have not led to anything.

Kirch, which historically has been highly secretive about its business dealings and alliances, now says it needs outside capital if it is to maintain its position as a "major European broadcaster".

Its plans are believed to involve the establishment of a mezzanine company for its broadcasting and programme rights distribution businesses in which outside investors would take stakes and in which shares may eventually be sold in an initial public offering.

The biggest shareholder, however, would be a foundation which the company's founder and present owner, Leo Kirch, is in the process of establishing. It was this issue of limited influence which is believed to have stalled negotiations with the outside investors.

Separately, Mr Murdoch has been in talks with Bertelsmann and the owners of other networks about stepping up News Corporation's presence in Germany, which is at present limited to a stake in Vox, a small channel co-owned with CLT-Ufa.

At Bertelsmann, meanwhile, patience is running out and the company has threatened to pull out of Premiere and, thus, digital pay-TV, altogether unless a solution is soon found. The company is concerned the negative publicity from its difficulties with pay-TV, a small part of its overall portfolio, is bad for the perception of the group as a whole.

For Kirch and CLT-Ufa there is some small consolation in the fact that they are not the only subjects of regulatory disapproval. The European Commission recently expressed concern about the status of Germany's public sector networks.

Axel Springer headquarters: little room for manoeuvre — Stefan Boness

These derive their income from a mixture of licence fees and advertising, a mix which Brussels fears distorts the market, particularly in the area of sports and popular entertainment broadcasting.

A solution may be for the public networks, ARD and ZDF, to discontinue advertising, which is already a declining source of income. Udo Reiter, ARD's chairman, says that with advertising already accounting for less than 5 per cent of revenue the public sector networks could live without it.

A more deep-seated concern for ARD and ZDF is their longer-term role. The dispute about financing raises the wider issue of the purpose of the public sector networks.

ARD, the premier network which is composed of regional affiliates, and ZDF see their job to provide a "full programme" of everything from local and national news and current affairs to drama and game shows.

The commercial networks, such as CLT-Ufa's RTL and Kirch's SAT1, say the public sector should restrict itself more to a public service brief, such as news, educational and regional programming, and leave the entertainment to them.

So far ARD and ZDF have resisted such pressures. But within the public broadcasting sector there is growing realisation that restructuring may be imminent.

The past year has seen the first big merger of two public sector networks. With pressure mounting to cut costs and satisfy increasingly critical politicians, particularly those from wealthier states whose networks subsidise those from poorer regions, more such link-ups may be on the way.

Away from the television screen there has been a decided move towards internationalisation in the print sector as German companies have turned their attention abroad.

"If you look at the German market you see there is very little room for manoeuvre," says a senior executive at Axel Springer, the Hamburg newspaper and magazine publisher. "The big possibilities for expansion now lie abroad."

Earlier this year Springer turned its attention to Britain, where it considered making a bid for Mirror Group, a newspaper publisher. In that case Springer decided not to proceed with a bid, which industry observers said would have involved paying too high a price. But the German company remains committed to exploring possibilities outside its home market.

Bertelsmann, meanwhile, has underscored its international orientation with its acquisition earlier this year of Random House, the US publisher, for an estimated $1.3bn. The move, which followed earlier acquisitions of Bantam and Doubleday, makes the company the world's biggest English-language publisher.

The US has also been the target for a significant drive by Bertelsmann into the world of electronic commerce. In October it bought 50 per cent of the online retailing business of the bookseller Barnes & Noble.

The move foreshadows Bertelsmann's launch this month of Books Online, an internet based retailing business, in western Europe.

Thomas Middelhoff, Bertelsmann's new chairman, is enthusiastic about the possibilities offered by online services and electronic commerce which, he thinks, will one day make existing forms of multimedia, such as digital pay-TV distributed along cables and set-top decoding boxes, redundant.

If that view proves correct it would also relieve Mr Middelhoff of the bad publicity, tiresome negotiations and, perhaps, regulatory hassle which now beset Bertelsmann.

CHEMICALS by Graham Bowley

Finding the formula

Three chemicals groups have taken different routes to success

Germany's chemicals industry is experimenting with a knotty problem: how best to run its business in the face of intensifying global economic pressures?

The big three – Hoechst, BASF and Bayer – have come up with rather different answers. It is unclear who is right.

Hoechst thinks it has the correct solution. Jürgen Dormann, Hoechst's chief executive, has decided to focus purely on life sciences (pharmaceuticals and agrochemicals). These, he argues, are what Hoechst has traditionally been good at. And life science products attract lucrative premiums because they require a lot of original research. These are what a modern, profit-minded business should be producing.

In the past four years, Mr Dormann has put this philosophy to work. Hoechst has sold off huge swathes of its traditional industrial chemicals businesses. At the same time, it has built its pharmaceuticals activities through acquisitions – merging its own drug operations with Marion Merrel Dow of the US and Roussel Uclaf of France to create HMR, the drugs group which is now Hoechst's core. Soon, hopes Mr Dormann, Hoechst will no longer be known as a chemicals group but will be viewed as a tightly-focused life sciences company.

Mr Dormann has also recognised the importance of the stock market. He knows that Hoechst has to satisfy shareholders if it is to attract the capital needed to grow internationally.

Hoechst had expanded more through accident of the scientific process than through any business design. Mr Dormann's big idea when he came to power in 1994, was to split the group into clearly defined operating divisions. Each division was given increased autonomous powers. Shareholders could judge each on its merits and invest accordingly. Hoechst itself became a strategic holding group.

Hoechst's approach is very different from the strategy favoured by the second of the German troika, BASF. Jürgen Strube, BASF's burly chief, believes in chemicals, where BASF has traditionally been strong.

His vision is of the *Verbund*: large integrated chemical sites where the byproducts from each process are saved and fed back into the plant to create a variety of other products.

Such a strategy is supposed to have the benefit of huge cost savings. And it appears to be working: BASF's financial performance this year has eclipsed its German rivals. At BASF's annual get-together this autumn, executives were glowing with pride at their group's robust performance.

One long-standing criticism is that BASF is too vulnerable to the ups and downs of economic cycles because of its dependence on basic chemicals. BASF has been tackling this weakness by building up some non-cyclical businesses. It has used part of its huge cash reserves to buy pharmaceutical and agrochemical activities and to invest in its gas pipeline. And it has enjoyed some success: coming up with a few exciting new drugs which analysts say could be blockbusters.

BASF has also begun to recognise the importance of the stock market. It has even begun to steal some of Hoechst's clothes as the most financially sophisticated German chemicals company. It has said it may soon return cash to shareholders by buying back shares. It might even follow Hoechst and list its shares on the New York Stock Exchange, something investors have warmed to.

The third member of the troika is pursuing an altogether different strategy. Unlike Hoechst and BASF, Bayer has large activities in both chemicals and pharmaceuticals. Chairman Manfred Schneider argues that there are important synergies between the two areas and ridicules the fashion for demergers. This has not stopped market speculation that Bayer will have to merge its pharmaceuticals activities with another company's – Hoechst's has been rumoured – because it is too small to survive alone.

Mr Schneider wants to base Bayer on four main business pillars: healthcare, agriculture, speciality chemicals and polymers. Lately, he has begun to emphasise the life sciences aspect of Bayer's business and has made some key acquisitions to bolster that side of the company. He bought the diagnostics business of Chiron, the US biotechnology company, for about $1.1bn. He also acquired a 50 per cent stake in Gustafson, a US seed treatment business. Later, he forged a partnership with Millennium, a US gene-hunting company, in a deal valued at $465m over five years which wowed the biotechnology world.

Mr Schneider is also pruning Bayer's portfolio. After years of speculation, he announced that Bayer would jettison Agfa, its film and graphics subsidiary. It is to be spun off in a public flotation next year, depending on market conditions.

Of these three very different companies, BASF is prospering most. But this could quickly change. The Asian crisis is a worry for the company, as is the world-wide contraction in markets because BASF's dependence on basic chemicals relies heavily on industrial growth.

Bayer is also doing well, although it has been hit by the slowdown in Asia and by government-mandated cuts in drugs prices in Japan.

Hoechst is struggling most. Mr Dormann's revolution has run into trouble as attempts to sell off the industrial chemicals businesses are taking longer than expected and there are still doubts that HMR's laboratories can come up with the new drugs to guarantee Hoechst's long-term health.

Analysts are keeping faith with Mr Dormann but investor patience is being sorely tested. The experiment has some time to run yet.

FINANCIAL SECTOR by Tony Barber

Outsiders eye the market

The introduction of the euro is certain to sharpen competition among banks

When you touch bottom, the only way is up. It is a motto which, suitably adjusted to take account of their underlying resilience, Germany's banks may well like to take with them into the new year.

From the Nazi gold controversy to the collapse in their share prices, from Russia's debt default to their finger-burning encounter with hedge funds, the shocks dealt to the banks in 1998, particularly in the last five months, have been as unpleasant as they have been unexpected.

Even now, as stock prices recover and the anxious atmosphere in boardrooms and trading rooms alike starts to calm down, the banks are not yet fully in the clear, for the world's financial crisis is continuing to cast considerable uncertainty over the prospects for 1999.

However, German bankers do at least know the nature of one fundamental challenge awaiting them next year. The introduction of the euro on January 1 is certain to sharpen competition among banks and other companies offering financial services in Europe.

German banks have long been present in other European countries but, from next year, they will need to keep one eye on outsiders keen to expand in Germany.

The Dutch financial services group ING showed the way last September by increasing to 40 per cent its stake in BHF-Bank, one of Germany's most venerable private banks.

Swiss banks, traditionally strong in asset management and keen to claim a share of euro-zone business, may view Germany as an especially enticing market from next year.

The single European currency is also likely to force the pace of restructuring inside German banks. Most gain income from activities which will shrink in the age of the euro, such as government bond business, corporate credit financing and foreign exchange trading, payments and transfers.

Yet specialists regard Germany's commercial banks, and even their regional public sector cousins, as well-placed to exploit the opportunities presented by the euro.

Most have a solid customer base and a good product range, and have made careful technical preparations ahead of the euro's launch.

For some banks, however, Europe remains too small a stage on which to parade their talents. Both Deutsche Bank and Dresdner Bank, respectively the largest and third largest in Germany, have recently restated their determination to be recognised as prominent international actors, especially in the US.

Deutsche cited this as one factor behind its decision to contribute $300m to the bail-out of the troubled US hedge fund, Long-Term Capital Management. It was the only German bank to participate in the rescue.

Deutsche's ambitions were underlined last month by revelations that it had been in talks with Bankers Trust, the seventh largest US bank.

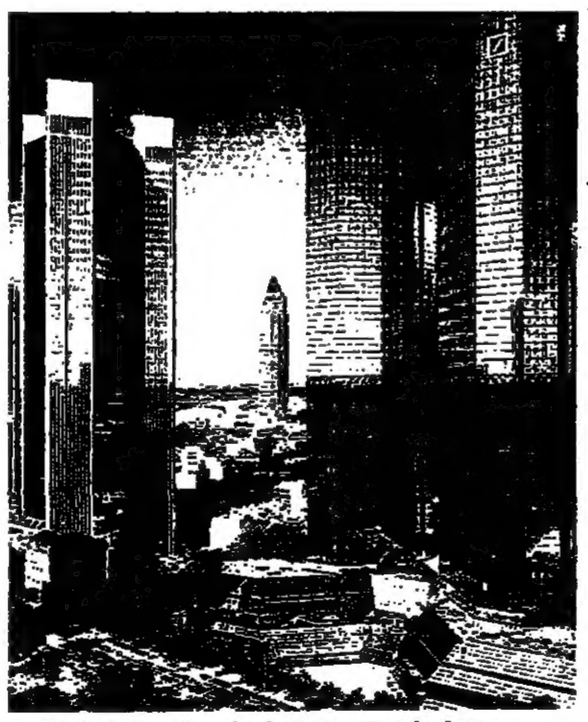
Deutsche's chief executive, Rolf Breuer, denied he was planning a takeover but said: "We are looking very intensively for opportunities to balance out our weaknesses."

To some eyes, Deutsche and Bankers Trust hardly seem a natural couple, since their activities overlap in several areas, including bond business.

In London, it might not be easy to blend the corporate culture of the US bank with that of the German bank's British subsidiary Deutsche Morgan Grenfell, acquired in 1900.

But Deutsche is keen to make its mark. Its high hopes in investment banking took a humiliating blow this year when a highly valued, 130-strong Californian technology team jumped ship.

Just as market rumours earlier this year linked Deutsche with the Wall Street firm JP Morgan, so Dresdner has had to fend off speculation that it is about to acquire the US investment house PaineWebber.



Frankfurt's banks will need to keep one eye on foreigners

Yet Dresdner's US ambitions are no secret. Even as the bad news from Russia, south-east Asia and LTCM was cascading over its sky-scrapered Frankfurt headquarters in September and October, Dresdner announced that it planned to list its shares on the New York Stock Exchange in the second half of next year. It will be the first German bank to do so.

The move is ostensibly aimed at broadening US ownership of its stock, currently 10 per cent. But analysts noted that a New York listing would facilitate a Dresdner takeover of a US institution.

Germany's second biggest bank, HypoVereinsbank of Munich, prides itself on having weathered this year's storms relatively well.

Less ambitious than its Frankfurt rivals, it sees itself as a "bank of the European regions" and is quietly developing its bases in the Czech Republic, Poland and Germany itself.

It says it has no plans to buy a US investment bank and has had very little to do with hedge funds.

Although most experts agree that the German banking sector is ripe for consolidation, the process halted in its tracks last month with the collapse of the long-planned merger between Bankgesellschaft Berlin (BGB), a partly private institution, and Norddeutsche Landesbank, the Hanover-based public sector bank.

The breakdown owed something to the market turmoil that had depressed BGB's share price, but it also reflected the political sensitivities involved in wedding the private and public sectors.

Private banks would unquestionably like to see more consolidation. Their own profitability is limited by low margins related to the fact that state-owned institutions control so much of the domestic credit and deposit market.

"No other country in western Europe shows such a low degree of consolidation. There is an urgent need for new groupings, especially in the savings bank and co-operative bank sectors," says Bernhard Speyer of Deutsche Bank Research.

In conditions of world financial turbulence, it is an open question how far that need can be satisfied, just as it is unclear how quickly the big commercial banks can achieve their own ambitions. As far as 1999 goes, some may feel that a year free of the nasty surprises of 1998 would be a blessing in itself.

PROFILE
KLAUS-DIETER SCHEURLE

Regulator in the line of fire

Feisty watchdog takes on the vested interests of Europe's biggest telecommunications operator

Klaus-Dieter Scheurle: pleased with progress so far — Stefan Boness

The life of a telecommunications regulator anywhere in the world can be tough. In Germany, where conflicts – in business as well as politics – are often solved via compromise rather than by an independent referee, the challenges are greater.

Take on Deutsche Telekom, Europe's biggest telecoms group, and the job becomes harder still.

But Klaus-Dieter Scheurle, president of the Bonn-based regulatory authority for telecommunications and posts, is pretty pleased with progress so far.

Given that Germany's market was fully opened only on January 1, the estimated 1,500 companies operating in licensed and non-licensed sectors is "a very healthy development", Mr Scheurle says.

He has proved himself a feisty regulator. Unclear, however, is whether the change of government in Bonn will have consequences for Mr Scheurle: he is perceived as a close political ally of Wolfgang Bötsch, the former Christian Social Union post and telecoms minister.

The framework for today's highly competitive market was created by the 1996 telecommunications act. And the most important stimulus to new competitors – the low interconnection price set for competitors linking their networks with that of Deutsche Telekom – came in September 1997, three months before he took up his appointment.

But the impact of the firm, sometimes insouciant style of Mr Scheurle, 44, has been clearly discernible. Mr Scheurle was closely involved in the interconnection pricing; at the time he was head of the regulatory department in the now-disbanded federal ministry of post and telecommunications, where he spent five years.

He started the first year of full liberalisation by firmly scaling back Deutsche Telekom's plans to charge DM95 when customers wanted to switch permanently, or "pre-select" a rival carrier.

He also ruled that customers should be able to transfer their telephone numbers to a new competitor without paying.

Pressure from Deutsche Telekom has sometimes been fierce. The interconnection price was described by Ron Sommer, Deutsche Telekom's chief executive, as "competition distorting". Almost routinely, Mr Scheurle's decisions are tested in court.

Meanwhile, Mr Scheurle has not always won friends in political circles. One impact of the low interconnect rate was that it encouraged Deutsche Telekom's competitors to lease capacity from the former state monopoly – instead of building their own networks.

That required a change of mentality in an investment-orientated country used to gauging businessmen by the scale of their capital expenditure plans.

In his defence, Mr Scheurle says Deutsche Telekom is not being disadvantaged by the regulatory authority, "but treated according to the law which says prices have to be set according to what would be possible on an efficient cost basis".

Mr Scheurle adds: "I'm responsible to the law and to consumers – and not for the share value of Deutsche Telekom." He also argues that Germany's telecoms companies are investing – and creating jobs.

It is an uncompromising line from the Stuttgart-born Mr Scheurle, betraying his training as a lawyer. Wearing a pullover in the regulatory authority's Bonn headquarters, he seems at ease in his work – despite the proximity of Deutsche Telekom's headquarters a stone's throw away.

Following the flurry of activity in the run up to liberalisation, his work has now turned largely to detailed aspects of regulation: which companies, for instance, are entitled to the preferential "interconnection" rates? But important tasks lie ahead.

On the international stage, Mr Scheurle is lobbying for agreement between EU telecoms regulators on common principles of regulation.

These, he believes, could cover cost-orientated price rulings, numbering plans and a common approach to the new Universal Mobile Telephone System (UMTS) telephones which would add data transmission to conventional voice services.

At home, Mr Scheurle is due to rule soon on arrangements for allocating free frequencies in the 1.8 GHz range for mobile radio communications – a move which would give mobile phone operators extra capacity for their services.

Mannesmann Mobilfunk, operators of Germany's largest digital mobile network, has complained that a decision has been delayed for two years. It accused Mr Scheurle of "dithering".

But most crucially, Mr Scheurle has to rule by the end of November on the prices Deutsche Telekom can charge for access to the so-called "last mile" connection into the homes of customers. A low tariff would give a significant boost to competition in local telephony, taking competition into a new league.

Mr Scheurle says the aim is simple: "to get competition working". But the decision has required ploughing through countless pages of complex cost calculations.

Ralph Atkins

TELECOMMUNICATIONS by Ralph Atkins

Rivalry transforms market

The strength of competition has forced Deutsche Telekom to prepare price cuts expected to take effect next year

Customers are reluctant to switch carriers — Stefan Boness

Ten months is a long time in German telecommunications. Since full liberalisation of the DM100bn market on January 1 it has been transformed.

Some 200 licences have been awarded for telephone infrastructure or service companies. Another estimated 1,300 companies are active in areas where licences are not required. New competitors have taken a market share in the long-distance market of at least 14 per cent.

There is clearly some way to go. A recent Andersen Consulting survey of executives in German telecoms companies revealed widespread fears that customers are reluctant to switch carriers and are already tired of comparing tariff structures of different companies.

Many in the industry believe there is only space for two or three main challengers to Deutsche Telekom. But there are some obvious straws in the wind suggesting that competition is becoming full-blooded.

Deutsche Telekom, the former monopoly carrier, is clearly under pressure. True, it reported net income increased 22 per cent in the first nine months of 1998. But the strength of competition has forced it to prepare "aggressive" price cuts expected to take effect next year, particularly in the long distance market.

Second has been the successes of competitors. Take, for example, the sudden rise of MobilCom, based in Schleswig. MobilCom's founder, Gerd Schmid, quickly realised the arbitrage opportunities between the country's low "interconnection" rate – the price charged for linking into Deutsche Telekom's network – and high Deutsche Telekom retail prices.

With only modest investment in infrastructure of his own, Mr Schmid used rented lines from Deutsche Telekom to offer cut price telephony at a standard rate of 19 pfennigs a minute around the clock.

Helped by aggressive advertising, including using Deutsche Telekom's corporate pink colours, Mr Schmid claims to be beating financially stronger rivals in business volumes.

Another example of the strength of Deutsche Telekom's new competitors is the transformation of Mannesmann, the Düsseldorf industrial group once famed for its steel tube businesses.

It had already gained useful experience prior to January's full liberalisation of the fixed-line voice market. Mannesmann Mobilfunk operates Germany's largest mobile digital network.

All the signs are that Mannesmann Arcor, the fixed line service, has made a good debut. Sales of DM1.5bn are expected this year and 12m minutes of conversation are carried daily. Break-even is forecast for 2001.

Mannesmann's strength means it should be able to withstand the expected decision to withdraw from Arcor by two shareholders – AT&T, the largest US long distance carrier, and Unisource, the alliance of European telecoms companies linked to AT&T.

AT&T's decision follows its link-up with British Telecommunications and the resulting conflict of interest given BT's stake in Viag Interkom, the Munich telecoms company.

Indeed, Mannesmann used the loss of international expertise among Arcor's shareholders as an opportunity to rethink its strategy abroad. It has set up Mannesmann euro.map as an Amsterdam-based company offering cross-border services.

Among other destinations, Euro.map will link Mannesmann's interests in Italy, where it has a stake in Infostrada, the fixed line operator, and France, where it holds a 15 per cent stake in Cegetel, the biggest rival to France Telecom.

These are early days, but Mannesmann euro.map has the potential to undermine the Unisource alliance. It also offers an alternative to the networks of the traditional national carriers.

Mannesmann's position in its home market will help its international plans. Others have not made such a strong impact since January 1. O.tel.o, the telecoms joint venture established by Veba and RWE, the power utilities, has made a poor debut.

It started later than others and initially insisted, mistakenly, that customers should register before accessing its networks (others could be used simply by dialling a five-digit pre-code before the normal telephone number). In July, Ulf Bohla, o.tel.o's chairman, departed.

Thomas Geitner, o.tel.o's new head, admits the low interconnection rate and the stimulus given to companies which do not have their own infrastructure resulted in price and margin falls "of a speed and extent to which we had not expected".

Nevertheless, he says o.tel.o has bounced back, with price cuts in September helping to trigger a tripling in the number of minutes of conversation carried daily.

But o.tel.o's false start, expected to result in DM2bn losses this year, has perhaps created more scope for others. Viag Interkom, a joint venture controlled by the Viag industrial conglomerate in Munich, and British Telecom launched their mobile service at the start of October.

They hope to steal a march on competitors by offering, from next year, an integrated fixed line and mobile service. They are also looking to provide seamless services in the German-speaking world, using Viag's telecoms interests in Austria and Switzerland.

Viag's start has been marred, however, by personnel changes. Peter Briese was replaced as its chief in October after only 10 months in the job amid worries about his expertise in sales and marketing in a fiercely competitive market.

Long-term prospects for competitors such as o.tel.o, Viag Interkom and Mannesmann Arcor depend to a large extent on the next stage in the liberalisation of the German market, the opening up of the "local loop", the connections into the houses of customers.

If Klaus-Dieter Scheurle, the regulator, sets a low price for local loop access it would take telecoms competition in Germany into different territory.

Deutsche Telekom is demanding DM47 a month. But Mannesmann Arcor, for example, says the calculations show a cost of DM12.60 is all that is justified.

A decision by the telecoms regulator is due at the end of November.

RETAILING by Lucy Smy

Shops count cost of reform

An extra 10 hours a week of shopping time has failed to boost sales figures

It is not lack of interest in shopping that caused German retail sales to show no growth for five out of the last six years. Or not if you judge by the crowds of window shoppers thronging the Zeil, Frankfurt's main shopping street, at 4pm on a Sunday afternoon.

Couples pull each other by the hand to examine first one fur-collared winter coat and then another in the well lit windows of Kaufhof. The Anglo-American obsession with shopping, or at least window shopping, has translated well here.

Why, then, the reluctance to spend? That the shops are shut seems too simple an answer. A little over two years ago, the government introduced, amid much controversy, a shopping reform bill.

Shops would no longer shut at 2pm on a Saturday, but would stay open until 4pm and, during the week, remain open until 8:30pm. The extra 10 hours of shopping time a week has failed to lift retail sales figures.

Steffan Kern, of the Head Association of German Retailers, says the reform has made no difference in turnover and not one new job has been created". These were the arguments that pushed the reform through.

Instead as sales remained flat, retailers have instead been counting the cost of keeping their shops open longer and paying staff for more hours.

"The only difference," says Mr Kern, "is that the customers are more satisfied. But it is an expensive service for the retailers."

Metro, Germany's biggest retailing group with interests from department stores like Kaufhof, to electrical stores, DIY outlets and cash and carry supermarkets, is adamant that shopping hours must change again. "Shopping hours have to change, shops have to be open until 6pm on Saturdays. It must be possible," it says.

Metro's frustration is typical of larger groups and chains in Germany, trading under laws which were essentially formed for the protection of small family-owned corner shops. The bigger retailers, with an eye on broader pan-European profile, have seen the future, and for them it is clear. They are about to face the toughest competition of their lives.

Posters proclaim it all over town – not just in the shopping streets. *Der Euro kommt!* The European single currency is indeed coming and set for arrival in less than three months as a banking currency – and in four years for notes and coins.

Pricing in euros will mean many changes for businesses across Europe, but none more than retailers.

From the start of next year, retailers in the euro-zone can display prices in both euros and the national currency as part of a plan to establish consumer confidence in the new currency. But this may not be enough to stop an expected fall off in sales when the euro is introduced properly.

Retailers are expecting an initial sales slump as customers struggle to regain a feel for prices. They are also expected to be wary of the new prices after warnings from consumer groups that retailers might take advantage of the currency switch to raise prices.

It is a fear that the retailers are well aware of. The rounding of prices, common across Europe, is expected to be considered particularly suspicious. Prices to lure customers, always ending with a DM-.99, will also be rounded when they are converted – but will they go up or down?

Metro's spokesman says "down, of course. We have to maintain our competitive edge". Most consumer groups are sceptical.

The other worry the euro brings for retailers is transparency. Consumers freed from mental arithmetic may start comparing prices across the Euro-zone with a more critical eye.

Questioning why goods have a higher or lower price at home is expected to push retailers into competition throughout the 11 Euro-zone countries.

Some retailers are trying to play down the effect that transparency could have on their margins. They point out that consumers are not going to travel to other European countries in search of cheaper goods unless they live in a border region.

More likely consumers will see differing prices if they shop by the internet. Quelle, Germany's largest mail order company, has made one of the biggest commitments to internet shopping in the country.

Quelle started its internet service in August 1995 and from sales of DM9m last year, is expecting a rise to DM20m this year. However, it admits that transparency will be a problem.

Quelle has operations in France and Austria. "Customers are going to be confused if they see one price in euros on Quelle France's web site and a different euro price on Quelle Germany's site for the same goods," says the company's Uwe Stephan.

"However, these differences are usually due to different levels of taxation and we shall have to explain to the customer in a friendly way, that so much of the cost is tax and so much is shipping."

Quelle remains sanguine about the challenges ahead. "We are only selling in national markets today, so we are not overly concerned about this problem yet." And at the end of the day internet custom makes up less than 1 per cent of Quelle's business.

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PROFILE
EDMUND STOIBER

All Right in his fiefdom

Edmund Stoiber is adamant: "My life's task lies here in Bavaria." But when the Bavarian prime minister, hugely popular in his own state, declares that he has *no* interest in becoming Germany's next chancellor, one could be forgiven for recalling the words of his political mentor, the late Franz Josef Strauss.

Strauss, the towering figure of post-war Bavarian politics, liked to assert that he would rather grow pineapples in Alaska than run for Germany's highest political office.

Then in 1980 he stood as the chancellor-candidate for the Christian Democrats and their Bavarian sister-party, the Christian Social Union. Perhaps it is the memory of Strauss's comprehensive defeat at Helmut Schmidt's hands that keeps Mr Stoiber, 57, so quiet about any ambitions he may have to challenge Gerhard Schröder in the next national elections due in 2002.

After all, part of the lesson from the 1980 campaign seemed to be that Germans would never elect a Catholic, Bavarian, conservative as chancellor.

Several factors are working in Mr Stoiber's favour, should he tempt fate in 2002. Helmut Kohl's defeat and subsequent departure as CDU leader have had the effect of turning Mr Stoiber, Bavaria's prime minister since 1993, into one of Germany's three most important right-of-centre politicians.

The others are the CDU's Wolfgang Schäuble and Volker Rühe. Unlike them, however, Mr Stoiber is on a roll. Just two weeks before the CDU suffered its national humiliation on September 27, Mr Stoiber led the CSU to a stunning success in Bavarian state elections in which it took almost 53 per cent of the vote.

It thus came as little surprise when loss of power at the national level caused

In tune: 'listening to the people' is his recipe for success AP

Theo Waigel, Mr Kohl's finance minister, to hand over the CSU leadership to Mr Stoiber.

Suddenly, Mr Stoiber is not just fully in command of his state and party but, as the German centre-right's man of the moment, is in a position to spearhead opposition attacks on Mr Schröder's Social Democrat-Green coalition. This Mr Stoiber can do partly through the Bundesrat, the second chamber of parliament representing Germany's 16 states, of which Bavaria is among the most powerful.

He is likely to enjoy the role. One of his liveliest performances in the recent election campaigns was in front of an appreciative beer hall audience who shared his view that a change of government would put Germany at the mercy of greying left-wingers from 1968 and not-so-reformed communists from former East Germany.

Whether such rhetoric can appeal to a much broader span of public opinion is, of course, another matter. Unlike Strauss, who thrived in the highly-charged atmosphere of the Cold War, Mr Stoiber cannot seriously expect most Germans to see politics as a choice between "freedom or socialism".

Faced with Germany's first centre-left government for 16 years, some of his other themes seem more promising. These include the idea that the *bürgerliche Mitte* – middle-class, middle-of-the-road Germans – should make its weight count.

Already Germany's red-green government is learning that if it stumbles, in matters of taxation, economic policy, immigration or law and order, it can expect to suffer the mother of all lashings from Mr Stoiber's tongue.

Among his debts to Strauss, Mr Stoiber lists the lesson that a politician "should always listen to what the people are really saying". A recent poll, estimating that 83 per cent of Bavarians think he is a good prime minister, suggests he practices what he preaches.

Yet Mr Stoiber, thin of frame, abstemious and intellectual, is in many respects the polar opposite to the thunderous, passionate Strauss. He will allow no cult to develop around himself. "When you are doing well, it's important to remind yourself that politics is a team game," he says.

Mr Kohl, remembering Mr Stoiber's sniping last year over the precise conditions on which Germany should adopt the euro, is among those who may feel entitled to question the sincerity of such statements.

Mr Stoiber argues he was merely pointing out that, if the euro turns out to be a weak currency, some voters who were reluctant to abandon the D-Mark in the first place may be tempted to support the far right.

Married with three children, Mr Stoiber was Bavaria's interior minister from 1988 to 1993. Long under the shadow of Strauss, Bavaria today is Mr Stoiber's fiefdom. In the next century, it may be his base for a thrust at national power.

Tony Barber

REGIONS by Tony Barber

Local pride the heart of a nation

Heimat describes a place, physical and spiritual, from which Germany's many peoples draw their identity

Of all the many German words that lack a direct equivalent in English, perhaps the most intriguing is *Heimat*. Variously translated as home, home town, native country and natural habitat, it has all of these geographical or physical connotations but, in addition, an almost spiritual dimension that is no less vital to its meaning.

Heimat represents the surroundings in which a German feels most at home, most secure, most psychologically at ease. Often associated with birthplace, *Heimat* is what gives a German his or her identity, whether local, regional or national.

In a country with a short and occasionally disastrous history as a nation-state, *Heimat* is a concept which, unlike nationalism, can arouse love, loyalty and pride in a German without stirring contradictory feelings of doubt or shame.

Heimat can also have a practical impact on the way Germany is governed. In a referendum two years ago, Heimat-influenced voters rejected a proposal to combine the *Länder* or states, of Berlin and Brandenburg, despite support from both state governments.

Last June, Bavaria and Baden-Württemberg took an even more serious step when they launched a challenge in Germany's constitutional court to the system under which rich *Länder* subsidise poorer ones.

The two southern states, economic powerhouses containing more than a quarter of Germany's 82m people, were signalling their frustration at the continued bail-out of the struggling *Länder* of the former communist east.

It hardly came as a surprise two months later when an opinion survey, carried out by the Social Science Research Centre of Berlin-Brandenburg and the Hans Böckler Foundation, showed that only 17 per cent of east Germans fully identified with their new country.

As many as 55 per cent said they did not feel like real German citizens. Yet this sense of second-class status in the national context is assuaged to some extent by *Heimat*, or the comfort which easterners derive from their regional and local identity.

From the pine forests and marshes of Brandenburg to the Saxon city of Leipzig, the epicentre of the peaceful anti-communist revolution of 1989, the five eastern *Länder* are as different from each other as they are from the 11 western German states.

The new eastern *Land* of Saxony-Anhalt grabbed the headlines last April when the ultra-rightist German People's Union won almost 13 per cent of the vote in state elections, the best performance of a far-right party since the second world war. Yet Saxony-Anhalt has happier associations in the form of the statesman Otto von Bismarck, the composer Georg Friedrich Handel, the Protestant reformer Martin Luther and the philosopher Friedrich Nietzsche, all of whom were born within its present borders.

To the north lies Germany's least industrialised state, Mecklenburg-Vorpommern, the inspiration for Bismarck's remark that, if the world were about to end, he would immediately head for Mecklenburg, since everything happens there 100 years late.

It remains to be seen whether the state proved itself to be ahead of the times last month when the reformed Communists were invited, for the first time in Germany since unification, to join a *Land* government.

Germany's post-war federal system was designed, in the light of the Nazi experience, to place strict limits on the central government's authority, to develop democracy from the grassroots and to respond to people's sense of regional identity.

However, by abolishing Prussia, historically the dominant German state and seen as the primary source of militarism and authoritarian rule, the founders of what was then West Germany were confronted with the task of creating new *Länder* in its place.

Some of these states contain such a variety of landscapes, dialects and economic profiles that the sense of *Heimat* attaches itself to areas within them rather than to the *Land* itself.

A good example is Hesse, which did not exist in its present form until 1949. Forested parts of northern Hesse – where girls once really did wear red cloaks *à la* Little Red Riding Hood – could not be more different from moneyed, skyscrapered Frankfurt or from Wiesbaden, the grand spa and gambling town that serves as Hesse's capital.

Baden-Württemberg created in 1951, is an odd combination of Baden, traditionally viewed as Catholic, fun-loving and much influenced by neighbouring France, and the old kingdom of Württemberg, largely Protestant and inhabited by thrifty, conscientious Swabians.

Then there is the self-styled Free State of Bavaria, ruled by the Wittelsbach dynasty for seven centuries until 1918, a place where the sense of *Heimat* is famously strong.

It will be fascinating to watch the Bavarian reaction to the German capital's move from Bonn to Berlin, a city with its own identity and once the capital of Prussia, Bavaria's historical rival.

Unlike Paris or Moscow, Berlin, with only 4 per cent of the population, will not dominate Germany. Finance, the media, fashion and sport will continue to flourish in Frankfurt, Hamburg, Munich and elsewhere.

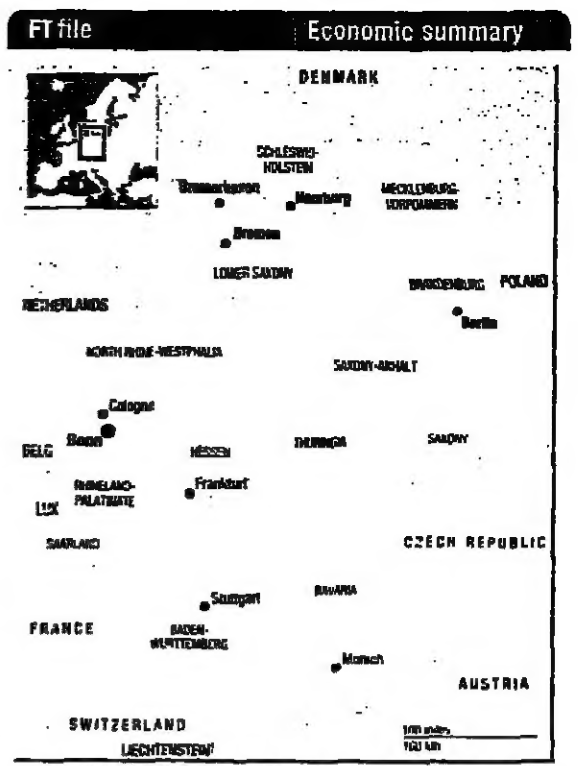
The wider European context also favours a strengthened German sense of *Heimat*. One-party dictatorships and highly centralised democracies have given way, as the century closes, to efforts to support regional identities within the European Union and beyond.

But *Heimat* today stands for more than inward-looking provincialism as it defines Germans in a wider sense.

The concept embodies a nation anchored in democracy, united, prosperous, at peace with its neighbours and assuming ever greater responsibilities on the international stage.

Love of *Heimat* and pride in these successes complement each other, providing the unique mixture that sets Germans apart from other Europeans.

FT file — Economic summary



- Area: 356,970 sq km
- Language: German
- Currency: Deutschmark (DM)
- Exchange rate: 1997 average $1=DM1.735; November 3 1998 $1=DM1.650
- Population: 82.1 million (1997 estimate)
- Main cities and population (1995)

City	Population
Berlin	3,470,000
Hamburg	1,707,000
Munich	1,241,000
Cologne	964,000

Economic summary

	1998*	1999*
Total GDP ($bn)	2,161	2,269
Real GDP growth (annual % change)	2.7	2.2
GDP per head ($)	26,330	28,800
Wage rates (annual % change)	2.0	2.2
Industrial production (annual % change)	3.4	1.3
Unemployment rate (% of workforce)	11.2	10.6
Current account balance ($bn)	1.0	-0.9
Trade balance ($bn)	85.8	92.0
Inflation (annual % change in CPI)[1]	1.1	0.8
3-month interest rates (annual average, %)[1]	3.46	3.2
Budget balance (% of GDP)[1]	-2.8	-3.1
Government debt (% of GDP)[1]	60.3	61.2

[1] Emu Convergence Criteria

Sources: Economist Intelligence Unit; ING Barings forecasts   * Forecast

STEEL AND ENGINEERING by Lucy Smy and Graham Bowley

Survival of the fittest

Few sectors have restructured as aggressively as engineering

Boom time: the buoyancy of the German motor industry has helped steel producers

Allegations that some countries are exporting steel to the US at artificially low, market-damaging prices have started a global ripple of concern which steel producers have not seen for a decade – and while the US shelters behind its steel curtain of protectionism, European producers, including the 100 and more in Germany, are being left out in the cold.

US anti-dumping charges are "very focused and against a limited number of countries," says Christian Mari, of Eurofer, Europe's steel manufacturers' group. "It will be only a matter of weeks until this first action is complemented by other ones. It might be extended to other countries and even to European ones."

Regardless of whether any European Union country is cited in a second round of US low-price steel dumping allegations, EU producers of steel are already feeling the heat of the US action.

With the US signalling that it is closing its doors, it is only a matter of time until Europe, flooded with imports rebuffed from America, does the same.

But such protection may come too late to save some EU steel producers. "It is difficult to put a price on the human cost of this flood of imports. It will have a big impact on balance sheets," warns Mr Mari.

Only two German steel companies are well-known. Krupp-Thyssen, which merged its steel units in a joint venture last year, preceding the merger of the rest of the company in March next year; and Salzgitter, the steel plant which achieved notoriety when it was unexpectedly bought by the state of Lower Saxony, led then by Gerhard Schröder, now Chancellor of Germany.

These two companies are responsible for more than half of Germany's steel production. The rest of Germany's steel producers are mostly rather small – many companies with fewer than 200 workers. They are often family-run, specialist companies and, at a time when imports are flooding in and price competition is high, they could be seen as vulnerable.

The German Steel Federation emphasises the brighter side when it says the position of small firms is quite well protected even without trade barriers. "Because they are specialised and they know their clients, they will survive," says Beate Brunninghaus, firmly.

However, she notes that the German steel industry has cut back on workers every year in recent history and this year is likely to be no exception. Already, the federation is hearing of companies moving on to short-time working.

"We will see some companies going bust," says a European steel analyst. "More likely with the family firms is that the firm will not get passed on to the next generation."

Consolidation could be the solution for some German companies, following in the footsteps of market leader Krupp-Thyssen, says Mr Mari. The background to this has been positive developments in the engineering industry.

Few of Germany's industrial sectors have restructured as aggressively as engineering during the past three years. Germany's companies enjoyed a boom around the time of reunification but the recession that followed was painful as output slumped and shortcomings were exposed in the industry. Output in Germany's machine tool sector, Europe's biggest, declined 40 per cent to around DM10.4bn in 1994.

Companies reacted by launching changes to render them fit once again for international competition, important for an industry where exports account on average for 60 per cent of production. So far, the changes appear to have worked – the engineering industry is now enjoying a gradual upturn: machine tool output is expected to grow around 10 per cent this year to about DM15.1bn.

The changes have inevitably focused on cutting costs, including big workforce reductions. The number of employees fell from about 1.5m in 1991 to around 925,000 by the end of last year.

Another significant step has been to cut back the variety of products offered. Companies which used to think it necessary to offer an extensive range of products for customers, even if they only sold a handful of one particular type in a year, have hacked back their ranges to become more focussed.

The renewed confidence in the industry has led to a flexing of muscles and fresh empire building. Thyssen, the German steel group, last year bought Giddings & Lewis of the US for around DM1.8bn to create Germany's biggest tool maker. There has also been consolidation within Germany: For example, Index, a private Stuttgart-based machine tool company, has taken over Traub, a smaller competitor in the same city.

Inevitably, Germany's engineering revival has been linked to better economic conditions in Germany and, importantly, in key export markets abroad, such as the US. It has benefited from a weaker D-Mark and from a pick-up in investment in European industry, especially in Germany. One important influence has been the German car industry, which is thriving at present.

But cyclical factors mean there are still deep concerns that engineering could once again be hit hard if there was a general economic downturn. There are worries that while big companies such as KSB, the world's third largest pump maker, and MAN, a commercial vehicles and printing machinery group, have put themselves on a firmer footing, other businesses – most of them small, privately-owned companies – still lack the financial muscle to withstand a recession.

A report from Salomon Smith Barney eases some of these fears. It concludes that the changes made by companies have significantly reduced the sector's vulnerability to economic cycles. But already, some of the leaders of the German car industry – namely, Jürgen Schrempp, chief executive of Daimler-Benz, and Bernd Pischetsrieder, head of BMW – are beginning to talk about the possibility of a sharp slowdown in output within the next year or so.

This cannot be reassuring for Germany's engineering companies, no matter how fit and lean they have become.

EDUCATION by Lucy Smy

Lessons of paying for free tuition

Talk about finance is at the beginning, middle and end

Physics lesson: in science and education, English is the new lingua franca

Leaning back in his chair, Professor Dr Werner Meissner smiles. "As an economist, I'm happy talking about finance at the start. But I have come to realise that other people are usually happier talking about the idea first and leaving the finance until the end."

With the German education system, however, talk about finance is at the beginning, middle and the end, and as president of Frankfurt's Johann Wolfgang Goethe University, Prof Meissner knows it.

Last year saw a big reform of the German university system. Although the reform was not driven purely by financial concerns, it was *financial concerns that* slowed it down.

The German federal government passed a law to introduce a system of teaching university courses for bachelor and master degrees, while keeping their tradi*tional diploma*.

The advantages, said the advocates, were that the new system would be internationally compatible, not only for students wishing to study in other countries, but also that it produced qualifications easily understandable in the global market.

The reform would have the byproduct of allowing German students to study for shorter periods if they wished, rather than working for a diploma taking an average of seven years. This would reduce overcrowding and underfunding at universities.

But this reform, for all its good intentions, ran into the funding problem. The cen*tral government which initi*ated the reform, then a Christian Democrat government administration led by Helmut Kohl, had to gain the agreement of the 16 states which administer and fund the universities.

It did not mention tutition fees, then as now paid by the state for the first degree. Various Social Democrat-led state governments wanted a specific clause added to the bill, banning students from ever having to pay their own *tutition fees*.

Since the general election on September 27 and the rise to power of SPD on the national stage, the question of banning tution fees for a first degree has become more pertinent and has implications for the rest of the ambitions of the German university system.

"We used to be an important figure on the world academic market, say 70-80 years ago," says Professor Hans Rainer Friedrich, at the federal education ministry.

"We want to re-enter the market and play a fair role. We are not giving up our own standards but we want to become a recognisable *member of the world aca*demic family."

To that end, Germany has decided to compete on the global academic market for students. The US, Australia and the UK have all led the way by attracting overseas students, often for high fees.

Germany wants to join the game – but as it does not charge domestic students tutition fees, it will not charge overseas students fees either. Moreover it plans to teach those who want to *listen in English*.

At present, foreign students make up around 10 per cent of Germany's student body. Of those, roughly half are ethnic Turks who may have lived all their lives in Germany and thus have less of a language problem.

It is to this language problem, as well as the previous long study period, that Germany's educationalists attribute the country's failure to attract more overseas students. All that however, they hope will change.

In the short to middle term, Germany hopes to double its percentage of overseas students. European Union guidelines suggest that at least 10 per cent of a *member country's student* body should spend a significant period of their study in another EU country. Germany is already sending more than 10 per cent of its students abroad.

"We don't want to give up our German – and McDonaldise our system," says Prof Friedrich. "However, no one really doubts that in science and education, English is the new lingua franca."

"At first most of the rectors opposed teaching *English, but already there is* an impressive number of units of applied science courses, with either whole or part of the course being taught in English," says Dr Josef Lange, secretary general of the conference of higher education rectors.

Teaching in English, he admits, is easier in some subjects than in others. Sciences and social sciences are more adaptable, but there are greater problems with the humanities.

Attractive though changes in the length of study and courses taught in English might be for overseas students, perhaps the over-riding lure will be the lack of tutition fees.

"*It is possible that Ger*many will become more attractive to students from south-east Asia, since the Asian financial crisis," agrees Dr Lange.

Ultimately, however, the plan to attract more overseas students will be paid for by the German taxpayer. An equal percentage of German students may leave the country, but will the average taxpayer like knowing they are paying for the education of people who may then leave *the country* and *never come* back?

Here the educationalists are apparently preparing to play a long game. "These people will be almost like our ambassadors," says Prof Friedrich.

Dr Lange agrees, saying there will be a generation of graduates around the world who will look favourably upon Germany, perhaps choosing German products or using the experience later to build trade links and business partnerships.

Taxpayers are often wary of long games. In Prof Meissner's office eyrie, a picture of Goethe's head changing colour, Warholishly – now red, now blue – on a desktop *screen-saver, realism domi*nates.

"The funding of universities will change. There will be a change by the state and a bigger proportion of funding will come from other sources.

"In two to three years funding may be more geared to output – to the products we produce. You understand this is a metaphor," he adds.

SPAS IN CRISIS by Frederick Stüdemann

Outlook not so healthy

There has been a fall in referrals following reforms by the government and as a response to overall economic uncertainty

The idea of visiting a spa for a spot of recuperation from the life's ardours may con*jure up images of bored 19th* century aristocrats watching the roulette wheels at Baden-Baden or taking the waters at Harrogate.

But to millions of Germans, regardless of their financial or social standing, a visit to a spa has come to be seen as one of the natural perks of the generous welfare system offered by Europe's biggest economy.

Each year close to 1m people are referred for a *Kur* by their doctors. The reasons can range from back problems suffered by an office worker to lung complaints common to those in the mining sector.

A typical spa visit takes three weeks, with treatment *revolving around a healthy* diet and exercise.

The spa resorts themselves are also enticing. Alongside traditional and famous spas such as Baden-Baden or Bad Homburg, the *Kur* industry has benefited countless other towns where local politicians have long realised that the *Kur* system is a useful job and money-generating machine.

Indeed, until recently spas were used by politicians as an instrument for interventionist economic policies.

Most of the bill for all this is picked up by the federal government as *Kur* visits are a legal entitlement. More than two-thirds of all so-called "stationary" *Kur treatments, those* which involve staying in a spa as opposed to those conducted on an outpatient basis, are ultimately paid for out of state pension funds.

Unsurprisingly, this generous system has opened itself to abuse.

As ever more lavish spa facilities were built the system came to resemble more a form of subsidised leisure than a means of public health provision.

Travel agencies began to advertise with slogans such as: "First visit the doctor, then the health insurance company and then book your holiday."

This cavalier attitude was reflected in official investigations into the state of the spa system. A 1996 survey by Württemberg regional state health authority found that around 12 per cent of spa patients did not really need treatment on medical grounds. A further 13 per cent were judged to be doubtful cases.

Against this backdrop it is unsurprising that Horst Seehofer, health minister in the government of former chancellor Helmut Kohl, went so far as to call the spa regime a *"holiday with medicinal* applications".

In 1996, Mr Seehofer sought to reform the *Kur* mania by introducing restrictions on the frequency of spa visits and more stringent assessments of whether there was genuine medical need. The nominal daily contribution demanded of patients for treatment was also raised.

There was also an attempt to bring more market practices into the system. Health insurance funds were allowed to compete with each other for patients' custom. In practice, however, critics say this aspect of reform has not worked.

"On paper they all compete, but in reality they operate as a cosy and closed syndicate," says an analyst.

The pressure for reform did not just come in response to abuses of the system. Rising unemployment led to a drop in the numbers of those paying into the state pension funds and thus reducing the amount of money available for spa treatments.

Since Mr Seehofer's reforms there has been a fall in spa treatments. "We have *seen two developments* – a drop in the number of referrals and also in the number of applications," says Marcus von Oeynhausen, managing director of one of Germany's few privately-owned spas.

The drop in applications is, he says, a response to overall economic uncertainty. In times of high unemployment employees are wary of being seen to absent themselves from work for something so apparently frivolous as a spa visit.

Deutsche Badertag, the industry's lobby group, says the drop in spa patient numbers, which in western Germany *fell by one-third* in 1997, has already prompted the closure of 250 clinics and loss of 40,000 jobs.

Deutsche Badertag says the difficulties facing spas, many of which are loss-making, are not a result of mismanagement and inefficiency, one of the common complaints about the sector, but directly due to Mr Seehofer's reforms.

But with Mr Seehofer now out of government, the industry is hoping that the new Social Democrat-led government will come to its rescue.

Christopf Kirschner, president of Deutsche Badertag, has called on the government to "revert to socially *acceptable*, economically sensible rehabilitation and spa medicine".

Others, such as Mr von Oeynhausen, would like to see the government embark on a fundamental reform of the health care system. As a private operator he would ideally like to see some more genuine liberalisation of the sector. But he is doubtful that such changes will come. Mr Schroder is not known for his great interest in health policy and the scale of reform needed is a daunting one.

"No politician dares to tackle this welfare system which has grown up over decades, even though everyone knows it needs to be reformed," says Mr von Oeynhausen. Part of the reason for this reluctance is the size of the health sector and the political clout it carries.

هكذا من الاصل